Axita Cotton Private Limited

February 21, 2018

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-Term Bank Facilities	16.65 (enhanced from 13.20)	**CARE BB-; Stable (Double B Minus; Outlook: Stable)**	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable)
Total facilities	**16.65 (Rupees Sixteen crores and Sixty Five Lakhs only)**		

Details of instruments/facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Axita Cotton Private Limited (ACPL) is on account of improvement in its scale of operations along with improvement in capital structure in FY17 (refers to the period April 1 to March 31). The rating, further, continues to derive strength from experienced promoters in the cotton ginning industry and its presence in cotton growing area of Gujarat.

However, the rating continues to remain constrained by thin profit margins, weak debt coverage indicators and moderate liquidity position in FY17 (refers to the period April 1 to March 31). The rating is further constrained due to seasonality associated with cotton availability and susceptibility of margins to cotton price fluctuations and prices and supply for cotton are highly regulated by the government.

The ability of ACPL to maintain its growth in scale of operations with improvement in profitability, debt coverage indicators and liquidity position along with better working capital management are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Thin profit margin

PBILDT margin of the company declined by 91 bps and stood thin at 1.89% for FY17 as compared with 2.80% for FY16 on account of increase in the raw material cost along with lower margin in trading done by company. APAT margin of the remained thin at 0.05% during FY17 as against 0.02% during FY16 on account of higher interest cost of the company.

Weak debt coverage indicators

Interest coverage ratio of the company deteriorated and stood weak at 1.48 times during FY17 as compared with 1.65 times during FY16 on account of lower PBILDT coupled with higher finance cost. Total debt to GCA of the company deteriorated to 16.55 years for FY17 as compared with 12.61 years for FY16 on account of higher total debt of the company along with lower GCA of the company.

Moderate liquidity position

The liquidity position of the company improved and remained moderate marked by current ratio of 1.68 times and quick ratio of 0.69 times as on March 31, 2017 as against 1.22 times and 0.48 times respectively as on March 31, 2016 on account of higher balance of receivables and inventories of company. The operating cycle of the company stood comfortable at 43 days during FY17 as compared with 40 days for FY16.

Seasonality associated with cotton availability and susceptibility of margins to cotton price fluctuations and prices and supply for cotton are highly regulated by the government

Prices of raw material i.e. raw cotton are highly volatile in nature and depend upon factors like, area under production, yield for the year, international demand supply scenario, export quota decided by the government and inventory carried forward of last year. Thus, aggregate effect of both the above factors results in exposure of ginners to price volatility risk. Furthermore, the cotton prices in India are highly regulated by the government through MSP (Minimum Support Price) fixed by government, though due to huge demand supply mismatch the prices have rarely been below the MSP.

Key Rating Strengths

Experienced promoters in the cotton ginning industry

ACPL was incorporated in 2013 by mainly three promoters i.e. Mr Nitin Patel, aged 53 years and has an experience of more than 20 years, Mr Amit Patel, aged 49 years and has an experience of more than 5 years and Mr Kushal Patel, aged 30 years and has an experience of 5 years.

Improvement in scale of operations

The scale of operations of the company increased significantly by 33.10% and stood at Rs.91.52 crore during FY17 as against Rs.68.76 crore during FY16 mainly on account of increase in demand of cotton bales during FY17.

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[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Improvement in capital structure
As on March 31, 2017, the capital structure of the company has improved and turned moderately comfortable marked by an overall gearing ratio stood at 1.17 times as compared with 2.25 times as on March 31, 2016 mainly on account of increase in the net worth of company.
Proximity to cotton growing area of Gujarat
The manufacturing facilities of ACPL are located at Kadi - Mehsana in Gujarat which is a major cotton producing state. ACPL's presence in the cotton producing region results in benefit derived from a lower logistic expenditure, easy availability and procurement of raw materials and regular demand for finished goods.

Analytical Approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

About the Company
Ahmedabad based (Gujarat) ACPL is a Private Limited Company established in 2013 by three promoters namely Mr Nitin Patel, Mr Amit Patel and Mr Kushal Patel. ACPL is engaged into the activity of cotton ginning, pressing and bailing. The plant of ACPL is located at Kadi – Mehsana (Gujarat). The main product of ACPL includes cotton bales and cotton seeds. The company has an installed capacity of 60000 Metric Ton per annum as on March 31, 2017.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	68.76	91.52
PBILDT	1.92	1.73
PAT	0.01	0.05
Overall gearing (times)	2.25	1.17
Interest coverage (times)	1.65	1.48

A: Audited;

Till February 12, 2018, the company has achieved total operating income of Rs.97.42 crore.

Status of non-cooperation with previous CRA: ICRA has conducted the review on the basis of best available information and has classified the Axita Cotton Private Limited as 'Not Cooperating' vide its press release dated August 11, 2017.

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure 1: Details of Instruments/Facilities:-

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	October, 2020	1.65	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE BB-; Stable

Annexure 2: Rating History for last three years:-

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	1.65	CARE BB-; Stable	-	1)CARE B+; Stable (22-Mar-17)	-	-
2.	Fund-based - LT-Cash Credit	LT	15.00	CARE BB-; Stable	-	1)CARE B+; Stable (22-Mar-17)	-	-

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