Axita Cotton Private Limited

March 22, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating action
Long-term Bank Facilities	13.20	**CARE B+ ; Stable (Single B Plus; Outlook: Stable)**	Assigned
Total	**13.20 (Rupees Thirteen crore and twenty lakh only)**		

Details of instruments/facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Axita Cotton Private Limited (ACPL) are constrained on account of moderate profitability, leveraged capital structure, weak debt coverage indicators, moderate liquidity position during FY16 (refers to the period April 1 to March 31). The ratings are also 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 ratings, however, derive strength from experienced promoters in the cotton ginning industry, established scale of operations and its presence in cotton growing area of Gujarat.

Going forward, ACPL's ability to increase its scale of operations with improvement in profitability and better working capital management will be the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters in the cotton ginning industry

ACPL was incorporated in 2013 by mainly three promoters. The director of ACPL include Mr Nitin Patel, aged 52 years and have an experience of 20 years, Mr Amit Patel, aged 48 years and have an experience of 5 years and Mr Kushal Patel, aged 29 years and has an experience of 4 years. All of them are also engaged with the partnership firm 'Aditya Oil Industries', which is engaged into the manufacturing of cotton bales and cotton wash oil. The vast experience of the promoters in the same line of business helps company for significant growth in scale of operations.

Established albeit fluctuating trend in scale of operations

The scale of operations of the company remained fluctuated marked by total operating income of the company during FY16 amounted to Rs.68.76 crore as compared to Rs.77.05 crore for FY15, while during FY15 amounted to Rs.77.05 crore as compared with Rs.17.36 crore in FY14. FY15 was the first full year of operations for the company. During FY16, the TOI of the company declined by 10.76% as compared with FY15 on account of lower sales realization of the products of the company.

As the company is into ginning and pressing of cotton, its prices remain volatile in nature due to fluctuation in the prices of raw cotton. Furthermore, the company is also engaged in the trading of cotton bales which also led to fluctuations in turnover as it is a volume driven business. The company operated at 75% of its installed capacity for FY16.

Gross cash accruals of the company for FY16 increased to Rs.0.75 crore as compared with Rs.0.45 crore for FY15.

Proximity to cotton growing area of Gujarat

The manufacturing facilities of ACPL are located at Kadi - Mehsana in Gujarat. Gujarat produces around 30% of total national production of cotton; hence, ACPL's presence in the cotton producing region results in benefit derived from a lower logistic expenditure (both on transportation and storage), easy availability and procurement of raw materials at effective prices and consistent demand for finished goods resulting in a sustainable and clear revenue visibility.

Key Rating Weaknesses

Moderate profitability

1 *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

As the company is engaged into the cotton ginning industry, profitability margins of the company remained thin marked by PBILDT margin of 2.80% for FY16 as compared with 2.04% for FY15. PAT margin of the company deteriorated to 0.02% for FY16 as compared with 0.05% for FY15. Apart from this, there is also trading activity dealing by the company and because of this, profitability margins of the company remains thin.

Leveraged capital structure and weak debt coverage indicators

For the year ended on March 31, 2016, the capital structure of the company improved but remained leveraged marked by overall gearing of 2.25 times as compared with overall gearing of 3.05 times as on March 31, 2015. Debt equity ratio of the company improved to 0.68 times as on March 31, 2016 as compared with 1.12 times as on March 31, 2015. Total debt of the company as on March 31, 2016 stood at Rs.9.51 crore which includes rupee term loan of Rs.2.75 crore, cash credit of Rs.6.64 crore and other long term loans of Rs.0.12 crore. Unsecured loans of Rs.1.69 crore as on March 31, 2016 treated as quasi equity as per sanction letter terms.
The debt coverage indicators of the company improved but remained weak marked by total debt to GCA of 12.61 years for FY16 as compared with TDGCA of 21.28 years for FY15. Interest coverage of the company also improved to 1.65 times for FY16 as compared with 1.38 times for FY15.

Moderate liquidity position

The liquidity position of the company remained moderate marked by current ratio of 1.22 times as on March 31, 2016 as compared with 1.07 times as on March 31, 2015. The operating cycle of the company deteriorated and remained moderate at 41 days in FY16 as against 33 days in FY15. The company extends credit period of 15-30 days to its customers while it has to make immediate payments to its suppliers. The company is maintaining inventory of 30 days. Average utilization of working capital borrowings remained at 70% and maximum utilization remained at 100% during 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.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's Rating Methodology for 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, 2016.

ACPL has registered a total operating income (TOI) of Rs.68.76 crore and net profit of Rs.0.01 crore during FY16 as against TOI of Rs.77.05 crore and PAT of Rs.0.04 crore during FY15. As per provisional upto January 31, 2017, the company achieved the total sales of Rs.70.00 crore.

Status of non-cooperation with previous CRA: Not Applicable

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	2.20	CARE B+; Stable
Fund-based - LT-Cash Credit	-	-	-	11.00	CARE B+; 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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	2.20	CARE B+; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	11.00	CARE B+; Stable	-	-	-	-

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