

Gajanand Spintex India Private Limited

April 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	8.88 (reduced from 11.37)	CARE BB; Stable [Double B; Outlook: Stable]	Revised from CARE BB-;Stable [Double B Minus; Outlook: Stable]
Long Term/Short Term Bank Facilities	6.00	CARE BB; Stable/ CARE A4 (Double B; Outlook: Stable/A Four)	Long-term rating revised from CARE BB-;Stable [Double B Minus; Outlook: Stable] and Short-term rating reaffirmed
Short Term Bank Facilities	0.10	CARE A4 (A Four)	Reaffirmed
Total Facilities	14.98 (Rupees Fourteen crore & Ninety Eight Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The revision in the long term rating assigned to the bank facilities of Gajanand Spintex India Private Limited (GSIPL) was mainly on account of improvement in turnover, profitability and debt coverage indicators during FY17 (refers to the period April 01 to March 31). The ratings, further, continue to derive comfort from experienced promoters and strategic location within cotton producing belt of Gujarat along with receipt of fiscal benefits from the Government.

The ratings, however, continue to remain constrained on account of moderate capital structure and moderate liquidity position during FY17. The ratings are further constrained on account of susceptibility of profit margins to fluctuations in raw material prices and operations in highly fragmented textile industry.

GSIPL's ability to increase its scale of operations and improve its profit margins and solvency position along with efficient working capital management would remain the key rating sensitivities.

Detailed description of key rating drivers

Key Rating Strengths

Improvement in turnover, profitability and debt coverage indicators in FY17

Total operating Income (TOI) of GSIPL increased by 20.75% y-o-y to Rs.40.80 crore during FY17 as against Rs.33.79 crore during FY16. Consequent to an increase in turnover, the profitability of GSIPL increased as marked by an increase of 11.71% y-o-y in its operating profits to Rs.3.36 crore in FY17, while it reported net profits to the tune of Rs.0.85 crore in FY17 as against net loss booked worth Rs.0.35 crore in FY16.

Furthermore, debt coverage indicators improved sharply as marked by total debt to GCA of 5.81 times as on March 31, 2017 (10.46 times as on March 31, 2016) owing to an increase in gross cash accruals in congruence with an increase in scale of operations coupled with lower debt level. Interest coverage ratio also improved and stood comfortable at 4.89 times during FY17 (2.23 times during FY16).

Experienced promoters and strategic location within cotton producing belt of Gujarat along with receipt of fiscal benefits from the Government

The key promoter-director of GSIPL has more than a decade of experience in the textiles industry. Further, key raw material required for manufacturing of cotton yarn is cotton bales which is easily available due to presence of the company in cotton producing belt of Gujarat resulting in benefits derived from easy access to raw material, labour and power.. Furthermore, GSIPL is eligible to receive interest subsidy from state as well as central government which is expected to increase the cash flows in the short-medium term.

Key Rating Weaknesses

Moderate capital structure and moderate liquidity position

GSIPL's capital structure continued to remain moderate marked by an overall gearing ratio of 1.57 times as on March 31, 2017 as against 1.93 times as on March 31, 2016. The liquidity position continued to remain moderate as marked by

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

below unity current ratio at 0.90 times as on March 31, 2017(0.92 times as on March 31, 2016). However, operating cycle stood comfortable at 18 days during FY17 which was in line with FY16, while the average utilization of its working capital facilities remained high at around 90% during past 12 months period ended January, 2018.

Susceptibility of profit margins to fluctuations in raw material prices and operations in highly fragmented textile industry

GS IPL is engaged in the business of manufacturing of cotton yarn; the major raw material for which is raw cotton. Prices of cotton which being an agro-commodity is seasonal in nature and subject to vagaries of weather. Any adverse changes in these variables may affect the margins of GS IPL. Further, industry is characterized by low entry barrier due to minimal capital requirement and easy access to customers and suppliers. Also, the presence of big sized players with established marketing & distribution network results into intense competition in the industry.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Criteria on manufacturing of cotton yarn](#)

About the Company

Incorporated in December 2013, GS IPL is engaged into manufacturing of cotton combed yarn of 30 counts which finds application into manufacturing of hosiery products. GS IPL operates from its sole manufacturing facility located in Mehsana – Gujarat and has an installed capacity to manufacture 4,560 Kg of 30 Count Cotton Combed Yarn per Day from 8 Ring framed Machines having 11,520 spindles as on March 31, 2017. The major raw material for manufacturing cotton yarn is ginned cotton which is procured from the local market of Gujarat.

Brief Financials (Rs. crore)	FY16(A)	FY17 (A)
Total operating income	33.79	40.80
PBILDT	3.01	3.36
PAT	-0.35	0.85
Overall gearing (times)	1.93	1.57
Interest coverage (times)	2.23	4.89

A: Audited

During 9MFY18 (Prov.) GS IPL reported TOI of Rs.31.58 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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-

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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	-	-	May, 2021	8.88	CARE BB; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	6.00	CARE BB; Stable / CARE A4
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.10	CARE A4

Annexure-2: Rating History of 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	8.88	CARE BB; Stable	-	1)CARE BB-; Stable (18-Apr-17)	-	1)CARE B+ (08-Feb-16)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	6.00	CARE BB; Stable / CARE A4	-	1)CARE BB-; Stable (18-Apr-17)	-	1)CARE B+ (08-Feb-16)
3.	Non-fund-based - ST-Credit Exposure Limit	ST	0.10	CARE A4	-	1)CARE A4 (18-Apr-17)	-	1)CARE A4 (08-Feb-16)

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