

## Gajanand Spintex India Private Limited

April 18, 2017

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	11.37 (reduced from 15.49)	<b>CARE BB-; Stable</b> <b>[Double B Minus; Outlook: Stable]</b>	Revised from CARE B+ (Single B Plus)
Long-term/Short-term Bank Facilities	6.00 (enhanced from 3.00)	<b>CARE BB-/CARE A4; Stable</b> <b>[Double B Minus; Outlook: Stable/A four]</b>	Revised from CARE B+/ CARE A4 (Single B Plus/A Four)
Short-term Bank Facilities	0.10	<b>CARE A4</b> <b>[A Four]</b>	Reaffirmed
<b>Total</b>	<b>17.47</b> <b>(Rupees Seventeen crore and Forty Seven lakh only)</b>		

*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) are on account of increase in its scale of operations consequent to stabilization of operations and improvement in debt coverage indicators. The ratings, also, derives comfort from experienced promoters, locational advantage and receipt of fiscal benefits from the government.

The ratings are constrained by its presence in the highly fragmented and competitive textile industry, moderately leveraged capital structure and moderate liquidity position.

The ability of the company to improve its scale of operations, profit margins, capital structure along with further improvement in debt coverage indicators would remain the key sensitivities. Further, efficient working capital management would also remain crucial.

#### Detailed description of the key rating drivers

##### Key Rating Weaknesses

##### ***Moderately leveraged capital structure***

Capital structure of GSIPL stood moderately leveraged marked by an overall gearing ratio of 2.30x as on March 31, 2016, on the back of high debt level and low net worth base as on March 31, 2016.

##### ***Moderate liquidity position***

As on March 31, 2016; liquidity position remained moderate as indicated by current ratio of 0.92 times (1.11 times as on March 31, 2015) and quick ratio of 0.55 times (0.68 times as on March 31, 2015) mainly due to increase in working capital bank borrowings as well as higher level of debt maturing within one year. Overall operations of the company remained working capital intensive in nature marked by an average utilization of its working capital limits at 100% during past 12 months period ended January 2017.

##### ***Susceptibility of profit margins to volatility in raw material price***

GSIPL is engaged in the business of manufacturing of cotton yarn and major raw material used in the manufacturing process is cotton. Cotton is directly sourced from local vendors and price of raw material is volatile in nature and hence the profitability of the company is susceptible to the fluctuations in cotton prices.

##### ***Presence in highly fragmented and competitive textile industry***

GSIPL operates in highly fragmented and unorganized market of textile industry marked by large number of small sized players operating into cotton yarn manufacturing. The industry is characterized by low entry barrier due to minimal capital requirement and easy access to customers and supplier.

#### Key Rating Strengths

##### ***Increase in scale of operations post stabilization of operations during FY16***

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

During FY15, GSIPL completed debt funded capex and its commercial production from the said project started from March 2015. FY16 was the first full year of operations for GSIPL during which it recorded TOI Rs.33.79 crore and PBILDT of Rs.3.01 crore during FY16.

**Improvement in debt coverage indicators**

With improved operating profit and cash accruals, debt coverage indicators improved during FY16. Total debt to GCA improved from 12.03x (annualized basis) as on March 31, 2015 to 11.07x as on March 31, 2016, while interest coverage ratio also improved marginally to 2.23x in FY16 compared with 2.11x in FY15 with improved operating profitability.

**Experienced promoters and location advantage**

The promoters of the company have vast experience in the textile industry since have been involved in the same for decades.

GSIPL's plant is located in cotton-producing belt of Gujarat region. GSIPL's presence in cotton-producing region results in benefit derived from lower logistics expenditure, easy availability and procurement of raw materials at effective price and consistent demand for finished goods resulting in sustainable revenue visibility.

**Analytical Approach:** Standalone

**Applicable Criteria**

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

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

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing companies](#)

[Financial Ratios - Non-Financial Sector](#)

[Rating Methodology for Cotton Yarn Industry](#)

**About the Company**

Incorporated in December 2013, GSIPL is engaged into manufacturing of cotton combed yarn of 30 counts which finds application into manufacturing of hosiery products. GSIPL operates from its sole manufacturing facility located in Mehsana – Gujarat and has an installed capacity to manufacture 4560 Kg of 30 Count Cotton Combed Yarn per Day from 8 Ring framed Machines having 11520 spindles as on March 31, 2016.

During FY16 (A), GSIPL reported net loss of Rs.0.35 crore on a TOI of Rs.33.79 crore as against net loss of Rs.0.46 crore on a TOI of Rs.0.50 crore during FY15. During 10MFY17 (Prov.), GSIPL has achieved TOI of Rs.32.73 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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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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	11.37	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	6.00	CARE BB-; Stable
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.10	CARE A4

**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	11.37	CARE BB-; Stable	-	-	1)CARE B+ (08-Feb-16)	-
2.	Fund-based - LT-Cash Credit	LT	6.00	CARE BB-; Stable	-	-	1)CARE B+ (08-Feb-16)	-
3.	Non-fund-based - ST-Credit Exposure Limit	ST	0.10	CARE A4	-	-	1)CARE A4 (08-Feb-16)	-

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