Press Release

A B Cotspin India Limited

January 16, 2025

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	93.68	IVR BBB/Stable (IVR Triple B with Stable Outlook)	-	Assigned	Simple
Short Term Bank Facilities	14.00	IVR A3+ (IVR A Three Plus)	-	Assigned	Simple
Total	**107.68**	**Rupees One Hundred Seven crore and Sixty-eight Lakhs only**			

Details of Facilities/Instruments are in Annexure 1.

Facility wise lender details are at Annexure 2.

Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has assigned its rating for long term facilities as IVR BBB with Stable outlook and short-term rating as IVR A3+ for the bank loan facilities of A B Cotspin India Limited (ABCIL).

The rating draws comfort from the experienced promoters, long track record of operations, marginal growth in scale of operations along with improvement in profitability, moderate capital structure and easy availability of raw material. However, these strengths are partially offset by moderate debt protection metrics, profitability susceptible to volatile raw material prices and the highly fragmented, competitive nature of industry.

The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. IVR believes that the ABCIL’s business & financials risk profile will be maintained over the medium term on the back of its ability to improve its scale of operations while maintaining its margins and capital structure.

IVR has principally relied on the audited financial results of ABCIL up to 31 March FY24 (refers to period from 1st April to 31st March) and projected financials for FY25, FY26 and FY27, along with publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Significant and sustained growth in scale of business with TOI over Rs.300 crores with further improvement in profitability margins thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection metrics.

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to any deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Promoters and Long Track Record

The Company benefits from an experienced management team led by Sh. Deepak Garg, Chairman and Managing Director, with 20 years of industry experience, and Sh. Manohar Lal, Whole-Time Director, who brings over 40 years of expertise in the cotton industry. Established in 1997 with a turnover of Rs.10 crore, the Company has grown significantly, achieving Rs.256 crore in FY2024. Strategically located in Punjab, a cotton textile hub, the Company ensures seamless raw material procurement and market access. With a diversified product portfolio, including cotton bales, seeds, yarn, knitted fabric and edible oil, the Company caters to varied customer segments.

Marginal growth in scale of operations along with improvement in profitability

The company's TOI significantly increased from Rs.169.10 crore in FY2023 to Rs.255.77 crore in FY2024, reflecting a growth of 51.25%. The majority of the Company's revenue, approximately 78.59%, is derived from the sale of cotton yarn, with the remaining comes from other products offered by the company. It was observed that the sales of cotton yarn increased by 54.23% in the fiscal year 2024. In absolute terms, EBITDA improved significantly from Rs.10.44 crore in FY2023 to Rs.26.43 crore in FY2024, driven by an increase in sales volume and better average realization prices. Similarly, the EBITDA margin experienced a significant increase of around ~68% from 6.17% in FY2023 to 10.34% in FY2024. In absolute terms, PAT has significantly improved around ~247% from Rs.1.93 crore in FY2023 to Rs.6.70 crore in FY2024. Similarly, the PAT margin increased from 1.14% in FY2023 to 2.61% in FY2024. During H1FY'25 ABCIL has booked revenue of Rs.153.87 crore with an EBITDA margin of around 9.55%.

Moderate Capital Structure

The Company maintains a moderate capital structure with notable improvements in FY2024. The tangible net worth increased from Rs. 42.58 crore in FY2023 to Rs.68.46 crore in FY2024, driven by the accumulation of profits and share application money. The TOL/TNW ratio stood at a moderate 1.89x as of FY2024, reflecting a balanced level of total obligations relative to net worth. Additionally, the overall gearing ratio improved to 1.78x as of March 31, 2024, compared to 2.30x in FY2023, supported by the growth in net worth.

Easy Availability of Raw Material

The Company enjoys a strategic location in Punjab, a prominent hub for cotton textiles in India, providing access to a robust domestic market for knitted fabric and cotton yarn. Its manufacturing unit is situated in proximity to the Narma/Cotton producing belt, ensuring ease of procurement of its key raw material—raw cotton. This favourable location not only guarantees a steady and reliable supply of raw materials but also reduces logistics costs, enhancing operational efficiency. The established market infrastructure and close access to suppliers significantly boost the Company's marketing activities and contribute to its revenue growth.

Key Rating Weaknesses

Moderate Debt Protection Metrics

The Company's debt protection metrics showed a slight decline but remained above unity, indicating a manageable level of debt. The Interest Service Coverage Ratio (ISCR) declined from 2.98x in FY2023 to 2.83x in FY2024, and the Debt Service Coverage Ratio (DSCR) declined from 1.69x in FY2023 to 1.60x in FY2024, primarily due to higher interest costs in FY2024. However, the Gross Cash Accruals (GCA) improved significantly, rising from Rs. 7.37 crore in FY2023 to Rs. 16.43 crore in FY2024. The Total Debt to GCA ratio also improved, dropping from 13.31x in FY2023 to 7.40x in FY2024, reflecting the Company's ability to generate better cash flows. Despite these positive changes, the slight decline in coverage ratios draws attention, especially if interest rates remain high.

Profitability susceptible to volatile raw material prices

The profitability of textile mills depends largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation etc. Cotton being the major raw material of spinning mills, volatility in the prices of cotton impacts the profitability of the company

Highly fragmented, competitive nature of industry

The Indian textile industry consists of large, organized players who contribute to a major part of the production. The intense competition in highly fragmented textile industry restricts the ability of the company to completely pass on volatility in input cost to its customers.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.
Criteria on assigning rating outlook
Policy on Default Recognition and Post-Default Curing Period
Complexity Level of Rated Instruments/Facilities
Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity: Adequate

The company earned gross cash accruals of Rs.16.43 crore as against its repayment obligation of Rs.6.06 crore as on March 31, 2024. The company fund-based working capital limits were utilised at 71.30% during the past 12 months ended Sept 2024, indicating sufficient buffer to meet incremental requirements. The firm has a current ratio of 1.45x as of March 31, 2024. Moreover, the company is expected to generate cash accruals in the range of Rs.18.85 crore to Rs.25.65 crore against the repayment in the range of Rs.8.31 crore to Rs.9.06 crore during the projected year. All these factors reflect adequate liquidity position of the company.

About the Company

A B Cotspin India Limited, established in 1997, is one of a known company in the textile industry, producing high-quality cotton yarn, knitted fabric, and edible oil products. Located in Jaitu, Punjab, the company benefits from its strategic position in a prominent cotton-producing region, ensuring efficient raw material procurement and access to established markets.

The company began its journey with a cotton ginning plant, producing cotton bales and seeds. In 2000, it diversified by installing a crushing unit for extracting cottonseed and mustard oil, along with oil cake. A significant milestone was achieved in 2011 with the establishment of a spinning plant for cotton yarn manufacturing. By 2014, it expanded into knitted fabric production with the addition of knitting machines. Over time, continuous investment in advanced technology increased its spinning capacity to 36,000 spindles, with plans underway to add 14,000 more.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	169.10	255.77
EBITDA	10.44	26.43
PAT	1.93	6.70
Total Debt	98.09	121.67
Tangible Net Worth	42.58	68.46
EBITDA Margin (%)	6.17	10.34
PAT Margin (%)	1.14	2.61
Overall Gearing Ratio (x)	2.30	1.78

Interest Coverage (x)	2.98	2.83

** Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (Year 2024-2025)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-2024	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in in 2021-2022
1.	Fund Based	Long Term	93.68	IVR BBB/ Stable	-	-	-
2.	Fund Based	Short Term	14.00	IVR A3+	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

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Annexure 1: Instrument/Facility Details

Name of Facility/ Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	April 2027	1.88	IVR BBB/Stable
Term Loan	-	-	-	November 2032	31.63	IVR BBB/Stable
Term Loan	-	-	-	January 2030	4.71	IVR BBB/Stable
Term Loan	-	-	-	July 2030	3.46	IVR BBB/Stable
Cash Credit	-	-	-	-	52.00	IVR BBB/Stable
WHR	-	-	-	-	14.00	IVR A3+

Annexure 2: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-AB-Cotspin-16jan25.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.