



Press Release

Ajanta Spintex Private Limited

June 17, 2020

| Sl. No. | Instrument/Facility | Amount (Rs. Crore) | Rating Assigned |
|---------|----------------------------|-----------------------------------------------------------------------|-----------------------------------------------------|
| 1 | Long Term Bank Facilities | 28.87 | IVR B /Stable (IVR Single B with Stable Outlook) |
| 2 | Short Term Bank Facilities | 2.05 | IVR A4 (IVR A Four) |
| | Total | 30.92 (Rupees thirty crore and ninety two lakh only) | |

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Ajanta Spintex Private Limited (ASPL) draws comfort from experience of its promoters, proximity to cotton growing areas and satisfactory capital structure. However, these rating strengths are partially offset by its susceptibility to fluctuations in raw material prices and government regulations, intense competition, decline in operating income and profit margins in FY20 (Provisional), working capital intensive nature of operation, below average debt protection metrics and subdued cotton industry scenario.

ASPL has applied for moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020. Infomerics has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Key Rating Sensitivities

Upward Factor

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Improvement in the capital structure and debt protection metrics



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- Effective working capital management with improvement in operating cycle and liquidity

Downward Rating Factor

- Dip in operating income and/or profitability impacting the debt coverage indicators,
- Withdrawal of subordinated unsecured loan amounting to Rs.24.21 crore and /or deterioration in the capital structure
- Elongation in the operating cycle impacting the liquidity and higher average utilisation in bank borrowings on a sustained basis

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**

ASPL was promoted by Mr. Dhana Reddy and his family members who possess more than a decade experience in the textile industry. Before entering into manufacturing of cotton yarn in 2010, the promoters were in the business of cotton trading in Andhra Pradesh.

- **Proximity of cotton growing areas**

ASPL has its plant located in Kakani Village in Guntur District of Andhra Pradesh. The city is a hub of India's cotton industry, with abundant supply of cotton. This results in easy availability of quality raw materials and savings in transportation costs.

- **Satisfactory capital structure**

The capital structure of AJPL remains moderate marked by long term debt equity ratio and overall gearing ratio of 0.38x and 0.97x as on March 31, 2019. The same improved to 0.25x and 0.82x as on March 31, 2020 (provisional) respectively with accretion of profit to reserves, infusion of subordinated unsecured loans and scheduled repayment of its term loan. To arrive at the net worth, Infomerics has considered Rs.24.21 crore (as on March 31, 2020) of unsecured loans from promoters and associates as quasi equity as the same is subordinated to the bank facilities.



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Key Rating Weaknesses

- **Susceptibility to fluctuations in raw material prices and government regulations**

The margins are highly susceptible to changes in the prices of cotton. The price of cotton is fixed by the government through the Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with suppliers as well. Any adverse movement of cotton prices further impacts profitability.

- **Intense competition**

The spinning industry is highly fragmented and competitive with the presence of large number of organised and unorganised players. Intense industry competition coupled with commoditised nature of the products limits ASPL's pricing flexibility and bargaining power.

- **Decline in operating income and profit margins in FY20 (Provisional)**

The total operating income of the company has grown at a CAGR of ~9% during FY17-FY19; with year over year growth of ~10% in FY19 to Rs.93.55 crore from Rs.85.15 crore in FY18 driven by higher realisation and demand of its products. However, in FY20 (provisional), the revenue of the company moderated to Rs.87.36 crore with lower export since January to China, Vietnam, etc due to impact of COVID pandemic. However, the EBITDA margin of the company improved significantly in FY19 from 2.42% in FY18 to 7.46% in FY19, due to higher decline in raw material procurement price vis-à-vis total operating income. The same moderated in FY20 (Prov.) to 6.88% due to marginal increase in raw material expense. The PAT margin of the company remained below unity over the years due to its high interest outgo and stood thin at 0.47% in FY20 (provisional) with decline in EBITDA.

- **Working capital intensive nature of operation and below average debt protection metrics**

Operations of the company are moderately working capital intensive marked by its high inventory holding requirements mainly on account of seasonal availability of cotton. The company has high inventory holding period of about 3 months. The same led to higher utilization in bank limits to ~96% for the last 12 months ended April 30, 2020. However, debtor realisation remained satisfactory. The debt protection metrics as indicated by



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interest coverage ratio and Total debt/GCA stood at 1.56x and 11.04 years respectively in FY19 and 1.65x and 13.92 years respectively in FY20 (provisional) respectively.

- **Subdued cotton industry scenario**

The domestic cotton spinning industry is highly dependent on exports, particularly to China, with ~30% of the yarn produced in India being exported. The coronavirus outbreak in China fueled the pressure on domestic and export yarn realisations and triggered moderation in realisations in recent times. Prolonged subdued industry scenario may impact the profitability of the company.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Stretched

- The liquidity position of the company is expected to remain stretched in the near term. The company has relatively high debt repayment obligation of ~Rs.5 crore in FY21 as against expected gross cash accrual of Rs.5.14 crore in FY21. Further, its average of average bank limit utilisation also remained high at ~96% in the last 12 months ended on April 2020 is also indicating a low liquidity buffer.

About the Company

- Guntur based Ajanta Spintex Private Limited (ASPL) was incorporated in 2010 by Mr. Dhana Reddy and his family members. It is engaged in manufacturing of cotton yarn with spindle capacity of 24,200 spindles in the count range of 20's to 60's. The company manufactures 100% cotton yarn, mainly the carded and compact variety in counts of 20'-60' with its manufacturing facility located at Kakani Village in Guntur District (Andhra Pradesh).

Financials (Standalone)

(Rs. crore)

| For the year ended* / As On | 31-03-2019 | 31-03-2020 |
|------------------------------------|-------------------|--------------------|
| | Audited | Provisional |
| Total Operating Income | 93.55 | 87.56 |
| EBITDA | 6.98 | 6.01 |
| PAT | 0.72 | 0.41 |



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| For the year ended* / As On | 31-03-2019 | 31-03-2020 |
|-----------------------------|------------|------------|
| Total Debt | 33.23 | 32.84 |
| Tangible Net worth | 34.36 | 39.85 |
| EBITDA Margin (%) | 7.46 | 6.88 |
| PAT Margin (%) | 0.55 | 0.47 |
| Overall Gearing Ratio (x) | 0.97 | 0.82 |

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: ACUITE has moved the rating to issuer non cooperating category vide its press release dated February 14, 2020 due to lack of cooperation from the client and in absence of information.

Any other information: Nil

Rating History for last three years:

| Sr. No. | Name of Instrument/Facilities | Current Rating (Year 2020-21) | | | Rating History for the past 3 years | | |
|---------|-------------------------------|-------------------------------|--------------------------------|-----------------------------|-----------------------------------------|-----------------------------------------|-----------------------------------------|
| | | Type | Amount outstanding (Rs. Crore) | Ratings | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 |
| 1. | Cash Credit | Long Term | 20.00 | IVR B/ Stable Outlook | - | - | - |
| 2. | Term Loan | Long Term | 8.87 | IVR B/ Stable Outlook | - | - | - |
| 3. | Bank Guarantee | Short Term | 0.05 | IVR A4 | - | - | - |
| 4 | Foreign Bill negotiation | Short Term | 2.00 | IVR A4 | | | |

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.

Name and Contact Details of the Rating Analyst:

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|-------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|------------------------------------------------------|------------------|------------------|---------------|------------------------------|--------------------------|
| Long Term Bank Facilities- Cash Credit | - | - | - | 20.00 | IVR B/ Stable Outlook |
| Long Term Bank Facilities- Term Loan | - | - | - | 8.87 | IVR B/ Stable Outlook |
| Short Term Bank Facilities- Bank Guarantee | - | - | - | 0.05 | IVR A4 |
| Short Term Bank Facilities- Foreign Bill Negotiation | - | - | - | 2.00* | IVR A4 |
| Total | | | | 30.92 | |