Aastha Spintex Private Limited

December 4, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities	46.91	IVR BB+ / Stable (Double B Plus; Outlook: Stable)	Assigned
Long Term/Short Term Bank Facilities	6.75	IVR A4+ (IVR A Four Plus)	Assigned
Total	**53.66 (Fifty three crore sixty six lakh only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Aastha Spintex Private Limited (ASPL) derives strength from its experienced promoter, easy availability of raw material, adequate risk mitigation strategy to manage forex fluctuation risk and better revenue visibility due to export for reputed brands and regular clients. However, these rating strengths are constrained due to susceptibility of its profitability to fluctuation in raw material prices, presence in a highly fragmented industry marked by intense competition, working capital intensive nature of its business and its moderate financial performance with moderation in profitability in FY20. Further, the ratings also note its moderate capital structure and moderate debt protection metrics.

Key Rating Sensitivities:

Upward Factors

- Sustained growth in sale of operation with improvement in profitability metrics leading to improvement in cash accruals
- Improvement in the capital structure and debt protection metrics with the interest coverage above 3x
- Effective working capital management with improvement in operating cycle below 60 days and further improvement in liquidity

Downward Factors

- Decline in operating income or EBITDA below 6.5%,
- Further deterioration in the capital structure and / or moderation in debt protection metrics

- Elongation in the operating cycle above 80 days, impacting the liquidity of the business

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoter

ASPL's operations are managed by Mr. Vivek Patel and Mr. Divyang Gothi and their family, having a good experience in the textile industry. presence in the industry has helped the company in establishing comfortable relationship with its suppliers and customers.

Easy availability of raw material

The Company has easy access to raw materials as its manufacturing plant is located in Morbi (Gujarat), which is one of the cotton growing belt, in India. Favourable location of the plants also enables the group to save on logistics costs and sourcing at competitive price.

Better revenue visibility due to export for reputed brands and regular clients

ASPL supplies the yarns to the producers who make finished goods for reputed brands like Zara, H&M etc. The company focuses more on exports because of better margins, favourable trade policies extended by the state and timely payments from its clients which is favourable for their working capital management as well. The company does not wish to focus more on domestic market since the credit turnaround time does not match the expectations as per their policy and which may impact their margins and working capital cycle.

Moderate capital structure with moderate debt protection metrics

The overall gearing ratio though improved from 1.64x as on March 31, 2019 to 1.42x as on March 31, 2020 (Prov.) continued to remain moderate. Further the debt protection metrics of the company also remained moderate marked by interest coverage ratio at 2.13x as on March 31, 2020 (2.26x as on March 31, 2019) and Total debt/GCA at 8.50 years as on March 31, 2020 (6.52 years as on March 31, 2019), Further, driven by moderation in profitability and consequent deterioration in gross cash accrual, debt protection metrics of the company witnessed moderation in FY20.

Key Rating Weaknesses

Moderation in financial performance and profitability in FY20

The total operating income of the company has gradually grown over the years at a CAGR of ~12% with an EBITDA margin in the range of ~8-13% through FY18-FY20. The total operating income of the company increased by ~7.5% to Rs.198.70 crore in FY20 (Prov.) vis-à-vis Rs.184.66 crore in FY19. However, EBITDA of the company deteriorated from Rs.20.19 crore in FY19 to Rs.16.93 crore due to increase in the price of raw materials and labour cost. PAT of the company also deteriorated from Rs.4.72 crore in FY19 to Rs.2.54 crore in FY20 (prov.) due to lower EBITDA and high interest cost. Although the EBIDA margin and the PAT margins of the company deteriorated y-o-y, it was moderate at 8.52% and 1.28% in FY20, respectively. ASPL's operating margin reduced considerably since the impact of Covid was recognised sooner in other nations than in India. As the company had procured raw materials at relatively higher price and employed labour to meet is production requirement, but the clients in the export segment had cut their production due to expected reduction in demand due to Covid pandemic, this production cost and demand mismatch led to a stress on the margins of the company.

In H1FY21 the company has achieved total operating income of Rs.83.15 crore vis-à-vis Rs.79.54 in H1FY20 with an EBITDA of Rs.9.95 in H1FY21 crore vis-à-vis Rs.8.62 crore in H1FY20, reflecting marginal growth in the business.

Profitability being susceptible to fluctuations in key raw material prices

The company's profitability is vulnerable to sharp fluctuations in raw material prices, which affects sales realisations. Cotton prices have been volatile in recent years. Given the nature of the industry and requirement to stock cotton for the non-cultivation phase profitability remains susceptible to any adverse movement in cotton prices along with high requirement of working capital.

Highly fragmented industry coupled with 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 the group's pricing flexibility and bargaining power.

Working capital intensive nature of business

The operating cycle of the company stood was moderate at 73 day as compared to 66 days in FY 2018-19 due to increase in collection, inventory and creditor cycle. The company also has to maintain high level of raw material inventory since cotton is a seasonal crop, thus requiring high working capital. The working capital utilization of the company was at ~86%.

Liquidity - Adequate

The liquidity position of the company is expected to remain adequate driven by its expected cash accruals in the range of ~Rs.10-15.5 crore as against its debt repayment obligations of ~Rs.5.22-8.90 crore during FY21-23. Further, with the average working capital limit utilisation at ~86% during the past twelve months ended March 31, 2020 the company has adequate buffer for its working capital requirement. The current ratio of the company was 1.36x as on March 31, 2020. The company earned an adequate gross cash accrual of Rs.7.99 crore in FY20 and the promoters also infuse unsecured loans (unsubordinated) to meet short term liquidity requirement. Infomerics expects that the support from the promoters shall continue with need-based infusion, going forward.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

About the Company

Aastha Spintex Private Limited (ASPL) was incorporated in 2013 by Mr. Vivek Patel and Mr. Divyang Gothi, in Gujarat. ASPL's manufacturing facility is located at Halvad, Morbi (Gujarat) and engaged in ginning and spinning of cotton yarn used for knitting and weaving. ASPL's installed capacity of 25,920 spindles and production capacity of 6,000 MTPA. The company has close proximity to source of its raw material and derives revenue mainly from export to countries like Europe, Latin America, China, etc.

Financials: Standalone **(Rs. crore)**

For the year ended*/ As on	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	184.66	198.70
EBIDTA	20.19	16.93
PAT	4.72	2.54
Total Debt	72.97	67.90
Adjusted Net worth	53.82	56.64
EBIDTA Margin (%)	10.93	8.52
PAT Margin (%)	2.55	1.28
Overall Gearing Ratio (x)	1.64	1.42

**as per Infomerics standards*

Status of non-cooperation with previous CRA: Vide the last press release dated September 24, 2020 and August 13, 2020, ACUITE and CRISIL, respectively, have moved the rating to issuer non cooperating category due to non-submission of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	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.	Term Loan	LT	25.48	IVR BB+ / Stable	-	-	-
2.	Cash Credit	LT	16.25	IVR BB+ / Stable	-	-	-
3.	EPC / Secured OD	LT/ST	6.75	IVR A4+	-	-	-
4.	Proposed	LT	5.18	IVR BB+ / Stable	-	-	-

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:

Name: Mr. Chandrakant Bagri Tel: (033) 46022266 Email: chandrakant.bagri@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com

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.

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 – Term Loan	-	-	August 2023	25.48	IVR BB+ / Stable
Long Term Bank Facilities – Cash Credit	-	-	-	16.25	IVR BB+ / Stable
Long Term / Short Term Bank Facilities – EPC/Secured OD	-	-	-	6.75	IVR A4+
Long Term Bank Facilities– Proposed	-	-	-	5.18	IVR BB+ / Stable