

Press Release

Ajay India Limited (AIL)

29 March, 2018



Rating Assigned

Total Bank Facilities Rated	Rs. 30.00 Cr.
Long Term Rating	SMERA BB-/Stable (Assigned)

Rating Rationale

SMERA has assigned a long term rating of '**SMERA BB-**' (read as **SMERA double B minus**) on the Rs. 30.00 crore bank facilities of Ajay India Limited (AIL). Outlook is '**Stable**'.

The Rajasthan-based Ajay India Limited (AIL) was incorporated in 1996 by Mr. K L Kabra and family. The company is engaged in the manufacturing of grey and finished fabrics at Bhilwara, Rajasthan and has installed capacity of 12 lakhs metres per annum.

Key Rating Drivers

Strengths

Long track of operations and experienced management

AIL was incorporated in 1996. The promoter, Mr. Kabra and family has more than two decades of experience in the textile industry. SMERA believes that, long track record of operations coupled with the extensive experience of the management will benefit the company over the medium term.

Revenue Growth Y-o-Y

AIL witnessed healthy growth in revenues in FY2017, which grew to Rs. 75.02 crore as against Rs. 59.15 crore for FY2016 and Rs. 55.03 crore for FY2015. Growth in revenues was due to increase in sales volume and sales retaliation.

Weaknesses

Risk related to ongoing capex plan

AIL has undertaken large debt funded capex of Rs.18 crore to be funded through a bank loan of Rs. 15.00 crore and unsecured loans of Rs. 3.00 crore. The company plans to import 44 Air Jet looms. The project is expected to be completed by May 2018. The company will be exposed to significant project execution risk in case of time and cost overruns or delay in debt tie-up.

Moderate financial risk

AIL has moderate financial risk profile marked by net worth of Rs. 9.46 crore as on 31 March, 2017 as against Rs. 8.80 crore as on 31 March, 2016. The gearing stood high at 3.64 times and 3.57 times as on 31 March, 2017 and 31 March, 2016 respectively on account of capital expenditure in FY2016. Of the total debt in FY2017, long term debt constitutes Rs. 17.07 crore, working capital borrowings - Rs.15.02 crore and current portion of long term debt of Rs. 2.33

crore. The ICR (interest Coverage Ratio) and DSCR (Debt Service Coverage Ratio) stood at 2.06 times and 1.08 times respectively for FY2017. The TOL/TNW (Total outside Liabilities/Total Net Worth) stood at 4.29 times for FY2017.

Working capital intensive of operations

The operations are working capital intensive with GCA (Gross Current Asset) of 140 in FY2017 against 154 days in FY2016 due to high inventory holding period of 120 days and 141 days in FY2017 and FY2016 respectively. Further, the cash credit utilisation stood at around 80 percent.

Susceptibility of margins to volatility in raw material prices:-

The major raw material of the company -yarn which is derived from cotton. The prices of cotton keep fluctuating, the operating profit margins are susceptible to fluctuations in raw material prices.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of AIL to arrive at the rating.

Outlook – Stable

SMERA believes that AIL will maintain a stable outlook and continue to benefit over the medium term from its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the scale of operations increases substantially, while maintaining its operating profitability and improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue and margins or deterioration in the financial risk profile owing to working capital requirements. Any time or cost overruns may also entail a Negative outlook.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	75.02	59.15	55.03
EBITDA	Rs. Cr.	7.46	5.91	3.63
PAT	Rs. Cr.	0.66	0.54	0.16
EBITDA Margin	(%)	9.95	10.00	6.59
PAT Margin	(%)	0.89	0.92	0.29
ROCE	(%)	11.82	13.37	26.44
Total Debt/Tangible Net Worth	Times	3.64	3.57	1.91
PBDIT/Interest	Times	2.06	1.99	1.40
Total Debt/PBDIT	Times	4.58	5.23	4.04
Gross Current Assets (Days)	Days	140	154	153

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable): CARE Ratings in its rating rationale dated 26 February, 2018 has reported that, Ajay India Limited (AIL) has not paid the surveillance fees for the rating exercise agreed to in its Rating Agreement. In line with the extant SEBI guidelines, CARE's rating on AIL's bank facilities will now be denoted as CARE BB-; Stable /CARE A4; ISSUER NOT COOPERATING*

Rating History (Upto last three years)

Not Applicable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA BB- / Stable

Note: Term loan can be interchangeable as one time FLC (sight/Usance) to the extent of Rs. 13.40 crore.

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ABOUT SMERA

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