

Press Release

Ajanta Spintex Limited

December 06, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 36.26 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE BB minus**) on the Rs. 36.26 crore bank facilities of Ajanta Spintex Limited. The outlook is '**Stable**'.

Ajanta Spintex Limited (ASL) is a Guntur based company incorporated in 2010. 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 manufacturing facility is located at Kakani Village in Guntur District (Andhra Pradesh).

Analytical Approach

Acuité has considered the standalone business and financial risk profile of ASL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

ASL was promoted by Mr. Dhana Reddy and his family members who possess more than a decade experience in the textile industry. The promoter setup spinning unit in 2010 for manufacture of cotton yarn. Prior to that, the promoters were in the business of cotton trading in Andhra Pradesh. The industry experience of the Promoters has been reflected in improvement in revenues in the last three years through FY2018.

Revenues of the company grew at compound annual growth rate (CAGR) of 21 percent from Rs.50.43 crore in FY2015 to Rs.90.76 crore in FY2018. This is mainly due to continuous addition of capacity, higher capacity utilisation supported by well off-take and repeat business orders. Further, from April- September 2018, the company reported revenues of Rs.48.00 crore and is expecting revenues of Rs.95-97 crore in FY2019. Acuité believes that the business risk profile of the company is expected to improve backed by experience of the promoters in the industry and moderate demand for cotton yarn.

Weaknesses

- **Moderately working capital intensive**

Operations of the company are moderately working capital intensive marked by moderate Gross Current Assets (GCA) which stood at 144 days in FY2018 as against 131 days in FY2017. This is mainly due to high inventory of about 3-4 months period. The company maintains inventory of about 3 to 4 months for regular supply of yarn to customers and on account of seasonal availability of cotton. The same led to full utilisation of bank lines for the last six months through October 2018. However, debtor realisation is healthy and stood at one week for the last three years through FY2018. Acuité believes that with minimal amount of credit for purchase of raw material, and moderate inventory levels, the operations continue to be working capital intensive over the medium term.

- **Below-average financial risk profile**

Financial risk profile of the company is below average marked by weak debt service coverage ratio, average coverage indicators, though gearing (Debt to Equity ratio) and total outside liabilities to total net worth (TOL/TNW) are at moderate levels. Debt service coverage ratio (DSCR) is weak and stood below one for the last three years through FY2018. In FY2018, the company made net cash accruals of Rs.2.78 crore against principal repayment obligation of Rs.3.81 crore. However, the liquidity crunch is partly met with infusion of funds by the promoters. Debt protection metrics of interest coverage ratio

and net cash accruals to total debt (NCA)/TD are average at 1.57 times and 0.08 times respectively in FY2018. Gearing is moderate at 1.05 times as on 31 March, 2018 as against 1.15 times as on 31 March, 2017. TOL/TNW is moderate at 1.34 times as on 31 March, 2018 as against 1.30 times as on 31 March, 2017. Net worth stood at Rs.34.57 crore (Includes quasi equity of Rs.20.12 crore) as on 31 March, 2018 as against Rs.32.45 crore as on 31 March, 2017. Of the total debt of Rs.36.35 crore as on 31 March, 2018, includes term loan of Rs.16.97 crore, unsecured loan of Rs.3.00 crore and short term debt of Rs.16.38 crore. Unsecured loan was to meet the working capital requirement and term loan repayments. Acuité believes that the ability of the company to generate adequate net cash accruals to meet its repayment obligations would be the key rating sensitivity factor over the medium term.

• Susceptibility of profitability to volatility in raw material prices

The prices of cotton are highly dependent on agro-climatic conditions, and the purchase price of cotton depends on the prevailing demand-supply situation which limits the bargaining power with the suppliers as well.

• Competitive and fragmented industry

The company is exposed to intense competition in the highly fragmented textile industry with below-average operational spindle capacity of 24200 spindles.

Outlook: Stable

Acuité believes that the ASL will maintain 'Stable' outlook in the medium term on account of extensive experience of the promoters in the textile industry. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue coupled with higher than expected net cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in the profitability or any stretch in its working capital cycle leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	90.76	79.34	52.92
EBITDA	Rs. Cr.	7.72	8.05	4.66
PAT	Rs. Cr.	1.05	0.95	-3.01
EBITDA Margin	(%)	8.50	10.15	8.80
PAT Margin	(%)	1.15	1.20	-5.69
ROCE	(%)	8.72	7.55	10.99
Total Debt/Tangible Net Worth	Times	1.05	1.15	1.58
PBDIT/Interest	Times	1.57	1.84	1.33
Total Debt/PBDIT	Times	4.60	5.44	8.45
Gross Current Assets (Days)	Days	144	131	153

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

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	20.00	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	16.26	ACUITE BB- / Stable

Contacts

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About Acuité Ratings & Research:

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