

## Press Release

### Ambala Cotspin Private Limited

D-U-N-S® Number: 67-548-8028



September 11, 2019

#### Rating Assigned

|                                     |                            |
|-------------------------------------|----------------------------|
| <b>Total Bank Facilities Rated*</b> | Rs. 12.00 Cr.              |
| <b>Long Term Rating</b>             | ACUITE B / Outlook: Stable |

\* Refer Annexure for details

#### Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B**' (**read as ACUITE B**) on the Rs. 12.00 crore bank facilities of AMBALA COTSPIN PRIVATE LIMITED (ACPL). The outlook is '**Stable**'.

Incorporated in 2017, Ambala Cotspin Private Limited (ACPL) is a Haryana-based company engaged in the business of processing of cotton into cotton yarn. The day-to-day operations are managed by its directors, Mr. Satish Kumar, Mr. Nitin Garg, Mr. Tarun Garg, Mr. Thakar Dass and Mr. Surinder Kumar. The manufacturing unit is in Ambala, Haryana with installed capacity of 10 tonnes per day. The commercial operations of the company began from February, 2018.

#### Analytical Approach

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

#### Key Rating Drivers

##### Strengths

###### • Experience Management

ACPL is promoted by its directors, Mr. Satish Kumar, Mr. Nitin Garg, Mr. Tarun Garg, Mr. Thakar Dass and Mr. Surinder Kumar. The directors are in the business of rice milling for the past 60 years. Though processing of cotton is a new line of business for the company, it has an efficient second line of management. Further, the extensive experience of the management has enabled the company to forge healthy relationships with the customers and suppliers. Acuité believes that ACPL will continue to benefit from its experienced management and established relationships with its customers.

##### Weaknesses

###### • Nascent scale of operations

ACPL was incorporated in 2017. Its commercial operation started from February, 2018. Revenues registered for FY2019 is Rs.25.80 crore as against Rs.0.29 crore in FY2018. Further, operating margins stood at 14.14 per cent in FY2019 as against 3.14 per cent in FY2018. Acuité believes that the scale of operation is expected to increase on account of increasing demand.

###### • Intensive working capital operations

The company has intensive working capital operations marked by high Gross Current Assets (GCA) of 114 days in FY2019. The inventory and debtor levels stood at 71 days and 24 days, respectively, in FY2019. As a result, the bank limit is fully utilised for the last six months ending June, 2019. Acuité believes that the company's ability to efficiently manage its working capital operations will be a key rating sensitivity.

###### • Moderate financial risk profile

The financial risk profile is moderate marked by low net worth and moderate debt protection measures and gearing. The net worth of the company is moderate at Rs.6.89 crore as on 31 March, 2019 as against Rs.4.29 crore as on 31 March, 2018. The gearing of the company stood at 1.46 times as on March 31, 2019 as against 2.27 times as on March 31, 2018. Total debt of Rs.10.04 crore consists of term loan of Rs.8.54 crore and working capital facility of Rs.1.50 crore as on 31 March, 2019. Total

Outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 1.97 times as on 31 March, 2019 as against 2.35 times as on 31 March, 2018. Interest Coverage Ratio (ICR) stood at 2.39 times in FY2019 as against 0.09 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.21 times as on 31 March, 2019 as against 0.01 times as on 31 March, 2018. Debt Service Coverage Ratio (DSCR) stood at 2.37 times in FY2019 as against 1.93 times in FY2018.

#### **Liquidity Position**

ACPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.08 crore in FY2019 as against Rs.0.09 crore in FY2018, while its maturing debt obligation was Rs.1.19 crore for FY2019. The company's working capital operations are intensive as marked by gross current asset (GCA) days of 114 in FY2019. Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains fully utilized during the last 6 months' period ended June, 2019. The company maintains unencumbered cash and bank balances of Rs.0.04 crore as on March 31, 2019. The current ratio of the company stood moderate at 1.27 times as on March 31, 2019.

Acuité believes that the liquidity of the company will remain adequate over the medium term.

#### **Outlook: Stable**

Acuité believes that the company will maintain 'Stable' outlook over the medium term on back of experience of its management. The outlook may be revised to 'Positive', if there is substantial and sustained improvement in the company's operating performance, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics or elongation of working capital cycle.

#### **About the Rated Entity - Key Financials**

|                               | Unit    | FY19 (Actual) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income              | Rs. Cr. | 25.80         | 0.29          | 0.00          |
| EBITDA                        | Rs. Cr. | 3.65          | 0.01          | 0.00          |
| PAT                           | Rs. Cr. | 0.02          | -0.38         | 0.00          |
| EBITDA Margin                 | (%)     | 14.14         | 3.14          | 0.00          |
| PAT Margin                    | (%)     | 0.09          | -132.03       | 0.00          |
| ROCE                          | (%)     | 10.40         | -6.62         | 0.00          |
| Total Debt/Tangible Net Worth | Times   | 1.46          | 2.27          | 0.00          |
| PBDIT/Interest                | Times   | 2.39          | 0.09          | 0.00          |
| Total Debt/PBDIT              | Times   | 2.75          | 1071.21       | 0.00          |
| Gross Current Assets (Days)   | Days    | 114           | 3782          | 0             |

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

None.

#### **Any other information**

None.

#### **Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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 | 1.50                        | ACUITE B / Stable |
| Term loans             | Not Applicable   | Not Applicable | Not Applicable | 8.25                        | ACUITE B / Stable |
| Proposed bank facility | Not Applicable   | Not Applicable | Not Applicable | 2.25                        | ACUITE B / Stable |

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**About Acuité Ratings & Research:**

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