

Press Release

Axita Cotton Limited

December 03, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.17.00 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs.17.00 crore bank facilities of Axita Cotton Limited (ACL). The outlook is '**Stable**'.

Gujarat-based, Axita Cotton Limited (ACL) was incorporated in 2013 as a private limited company and got listed in January 2019. The company is listed on Bombay Stock Exchange (BSE). Mr. Nitinbhai Govindbhai Patel, Mr. Amitkumar Govindbhai Patel, Mr. Kushalbhai Nitinbhai Patel are the current directors of the company. ACL is engaged in the ginning and spinning of organic cotton seeds and cotton bales. The manufacturing capacity of the plant is 300 MT per month. Further, ACL has tie-ups with various renowned labels such as Primark, Trident, Welspun, Vardhman to name a few.

About the Group

Gujarat-based, Axita Group (AG) comprises Axita Cotton Limited (ACL), Axita Exports Private Limited (AEPL) and Aditya Oil Industries (AOI). The group is engaged in the ginning and pressing of cotton and has over 48 double roller ginning machines. The total manufacturing capacity of cotton seeds and cotton bales is 400MT per month. The promoters of the group are Mr. Nitinbhai Govindbhai Patel (Chairman and Managing Director), Mr. Amitkumar Govindbhai Patel (Whole time Director) and Mr. Kushalbhai Nitinbhai Patel (Director).

Analytical Approach

To arrive at this rating, Acuite has consolidated the business and financial risk profiles of ACL, Axita Exports Private Limited (AEPL), Aditya Oil Industries (AOI) together referred to as Axita Group. The consolidation is in view of similarity in the line of business, common management and operational synergies among the entities. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management**

Mr. Nitinbhai Govindbhai Patel (Chairman & MD) and Mr. Amitkumar Govindbhai Patel (Whole Time Director) have an experience of around two decades in the cotton industry; while Mr. Kushalbhai Nitinbhai Patel (Director) has an experience of nearly a decade in the industry. The established track record of operations and experience of the management has helped the group to develop healthy relationships with its customers and suppliers.

The group reported revenues of 447.99 crore for FY2019 as against 254.26 crore for FY2018. This was mainly on account of acquisition of new clientele such as Primark and Trident.

Acuite believes that the group will continue to benefit from the promoter's established presence in the industry and its improving business risk profile over the medium term.

- **Above average financial risk profile**

The group has above average financial risk profile marked by moderate net worth, low gearing and moderate debt protection metrics. The net worth stood at Rs.22.29 crore as on 31 March, 2019 as against Rs.7.36 crore on 31 March, 2018. The increase in the net worth was mainly due to healthy accretion to reserves and increase in share capital through the issue of shares.

The gearing (debt-to-equity) improved to 1.23 times as on 31 March 2019 as against 2.88 times as on 31 March, 2018. The total debt of Rs.27.52 crore as on 31 March, 2019 consist of long term debt of Rs.1.38 crore, unsecured loans of Rs.1.92 crore and working capital requirement of Rs.24.23 crore. The interest coverage

ratio stood at 1.57 times for FY2019 as compared to 1.76 times for FY2018. Total outside liabilities to tangible net worth (TOL/TNW) stood at 2.68 times as on 31 March 2019 as against 4.82 times as on 31 March 2018. Acuité believes that the financial risk profile of the group is likely to remain above average over the medium term, on account of adequate net worth and debt protection metrics.

- **Efficient working capital operations**

Operations of the group are working capital efficient marked by gross current assets (GCA) of 62 days in FY2019 as compared to 51 days in FY2018. This is on account of debtors' collection period of 29 days in FY2019 as against 26 days in FY2018 and inventory holding period of 16 days in FY2019 as against 18 days in FY2018. Average working capital utilization for past six months ended August 2019 stood at ~47 percent.

Acuité believes that the working capital operations of the group will continue to remain efficient over the medium term on account of efficient debtors' collection period.

Weaknesses

- **Reduced profitability margins**

Operating margins in FY2019 plummeted to 1.22 per cent vis-à-vis 2.15 per cent in FY2018; this was partially on account of initial public offer expenses and promotional expenses. The PAT margins have also declined to 0.19 percent for FY2019 as against 0.62 percent for FY2018. Acuite believes that the ability of the group to improve its profitability margins will be critical.

- **Susceptible to volatility in raw material prices and climatic conditions**

The production of cotton being a seasonal crop, is highly dependent upon monsoon. Inadequate rainfall affects the availability of cotton in adverse weather conditions. Further, cotton prices are highly regulated by the government through MSP (Minimum Support Price). However, the purchase and selling prices are depending on the prevailing demand-supply situation restricting bargaining power with suppliers and customers. Any adverse movement of cotton prices further impacts profitability.

- **Competitive and fragmented industry**

The group operates in a highly competitive and fragmented industry having characterised by large number of unorganised players mainly on account of low entry barriers. This can have an impact on the profitability margins of the group.

Liquidity position: Adequate

The group has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.1.81 crore for FY2019, with debt repayment obligations of Rs.0.60 crore for the same period. The cash accruals of the group are estimated to remain in the range of around Rs.3.50 crore to Rs.5.50 crore during FY2020-22 against no debt repayment obligations. The group's working capital operations are efficient, marked by GCA of 62 days for FY2019. The group maintained cash and bank balances of Rs.1.04 crore as on 31 March, 2019. The current ratio stood at 1.17 times as on 31 March, 2019. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of adequate cash accruals against no major debt repayments over the medium term.

Rating Sensitivities:

- Substantial improvement in EBITDA margins.
- Stretch in working capital cycle leading to increased reliance on working capital borrowings

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook on account of experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant improvement in working capital operations while, maintaining revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in scale of operations or profitability or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	447.99	254.26	102.91
EBITDA	Rs. Cr.	5.48	5.45	2.52
PAT	Rs. Cr.	0.87	1.57	0.11
EBITDA Margin	(%)	1.22	2.15	2.45
PAT Margin	(%)	0.19	0.62	0.11
ROCE	(%)	12.22	17.11	13.91
Total Debt/Tangible Net Worth	Times	1.23	2.88	3.88
PBDIT/Interest	Times	1.57	1.76	1.60
Total Debt/PBDIT	Times	4.81	3.82	7.72
Gross Current Assets (Days)	Days	62	51	75

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

None

Any other information

None

Material Covenants

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
13-Nov-2019	Cash Credit	Long term	15.00	ACUITE BB+/ Stable (Assigned)
	Proposed	Long term	2.00	ACUITE BB+/ Stable (Assigned)

*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	ACUITE BB+/ Stable (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+/ Stable (Reaffirmed)

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About Acuité Ratings & Research:

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