

Press Release

AMBICA COTSEEDS LIMITED

August 19, 2023

Rating Downgraded and Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Loan Ratings	30.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	30.00	-	-

Rating Rationale

Acuite has reaffirmed the short-term rating to 'ACUITE A4+' (read as ACUITE A four plus) on the Rs.30.00 Cr. bank facilities of Ambica Cotseeds Limited (ACL).

Rationale for Rating

The rating takes into account the extensive experience of the partners of more than three decades in the industry, efficient working capital operations and adequate liquidity position. However, the above strengths are offset by deterioration in the operating performance of the group in FY2023 (Prov), marked by the decreasing scale of operations. The revenue of the group stood at Rs.750.08 crore in FY2023 (Prov) as against Rs.971.68 crore in FY2022. Also, the PAT margins stood at 0.24 percent in FY2023 (Prov) as against 0.22 percent in FY2022. Further, the rating also continues to remain constrained by moderation in financial risk profile, high competition marked by presence of large number of unorganized players, volatility in raw material prices and risk of capital withdrawal.

About Company

Based in Gujarat, Ambica Cotseeds Limited (ACL), was incorporated in 2011 by Mr. Bharatbhai Prahaladbhai Patel and family. ACL is engaged in the exports of cotton bales, cotton yarn and cotton waste. ACL exports to Pakistan, China, Bangladesh, Vietnam, Thailand, Taiwan, Japan, Europe and America. The remaining is sold in the domestic market in Gujarat. They have altered their structure to a sole agency (the agent hired is responsible to only sell products of ACL) in Pakistan and China. Goods are procured from Gujarat, Maharashtra, AP and Rajasthan and even from its group companies VI and VCL. The company is involved in 50% trading and 50% manufacturing.

About the Group

Vivekanand Cotspin LLP

Vivekanand Cotspin LLP (VCL) is a Gujarat-based entity established in 2015 and promoted by Mr. Bharatbhai Prahaladbhai Patel and family. The entity is engaged in the business of cotton ginning and spinning with an installed capacity of 400 bales per day with average capacity utilization of up to 320 bales per day and an installed capacity of 25000 spindles with average utilization of 98 percent.

Vivekanand Industries

Gujarat-based, Vivekanand Industries (VI) was established in 1983 by Mr. Bharatbhai Prahaladbhai Patel and family. The firm is engaged in cotton ginning, pressing and extraction of oil cakes. The company has 52 DR machines with an installed capacity to manufacture 500 bales per day with an average capacity utilization of 98 percent and 11 expellers with an installed capacity to produce 1100 bags of 60 kg/day of cotton oil cakes with an average capacity utilization of 98 percent.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has considered the consolidated view of the business and financial risk profiles of Ambica Cotseeds Limited (ACL), Vivekanand Industries (VI), and Vivekanand Cotspin LLP (VCL) to arrive at the rating. The consolidation is in the view of a common line of business, common management, and significant business and financial interlinkages between these entities. The group is herein referred to as Vivekanand Group (VG).

Key Rating Drivers

Strengths

>Established track record of operations supported by an experienced management

VG entities were established in 1983 by Mr. Bharat Patel and Mr. Vishnu Patel. Both the partners have more than three decades of experience in the industry and continue to actively participate in the business; Mr. Nirav Patel is currently leading the group since 2008. Further, the operations of the group are based out of Mehsana, Gujarat, which is one of the major cotton producer states in the country.

Acuité believes that VG will continue to benefit from its proximity to its supplier base, promoters experience, and its established presence in the industry while improving the business risk profile in the near to medium term.

>Efficient working capital cycle

The working capital management of the group is efficient marked by GCA days of 44 days in FY2023 (Prov) as against 63 days in FY2022 and 82 days in FY2021. The debtor days of VG stood at 09 days in FY2023 (Prov) as against 32 days in FY2022 and 45 days in FY2021. The average credit period allowed to customers of 30-45 days. The reason for such debtors is most of the group's payment i.e., ~80% is at sight and the remaining is on credit. The creditor days stood at 01 days in FY2023 (Prov) as against 19 days in FY2022 and 20 days in FY2021. The average credit period allowed by suppliers is 07-10 days. ~85% is advance payment in which it receives cash discount from related parties. The inventory days stood at 29 days in FY2023 (Prov) as against 20 days in FY2022 and 21 days in FY2021. The average inventory holding period for the group is 45 days. Working capital limits of VG Group entities on a consolidated basis are utilized at an average of ~50-60 percent for the 6-month period ended June 2023.

Acuité believes that VG's ability to contain the further elongation in working capital in the near to medium term will be a key rating factor.

>Moderate Financial risk Profile

The group's financial risk profile is moderate marked by moderate net worth, gearing (debt-equity) and debt protection metrics. The tangible net worth of the group stood at Rs.78.63 crore as on 31 March, 2023 (Prov) as against Rs.77.95 crore as on 31 March, 2022 and Rs.50.92 crore as on 31 March 2021. The total debt of the group stood at Rs.74.99 crore which includes Rs.3.48 crore of long term debt, Rs.9.79 crore of USL, Rs.57.53 crore of short term debt and Rs.4.19 crore of CPLTD as on 31 March 2023. The gearing (debt-equity) stood at 0.95 times as on 31 March, 2023 (Prov) as compared to 1.59 times as on 31 March, 2022 and 2.91 times as on 31 March 2021. Total Outside Liabilities/Total Net Worth (TOL/TNW) stood low at 0.99 times as on 31 March, 2023 (Prov) as against 2.09 times as on 31 March, 2022 and 3.79 times as on 31 March 2021. The Interest Coverage Ratio stood at 2.01 times for FY2023 (Prov) as against 1.67 times for FY2022 and 1.63 times for FY2021. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.09 times for FY2023 (Prov) as against 0.07 times for FY2022 and 0.06 times for FY2021. Debt Service Coverage Ratio (DSCR) stood at 1.25 times in FY2023 (Prov) as against 1.32 times in FY2022 and 1.00 times in FY2021.

Acuité believes that the performance of the gearing and coverage indicators will be a key rating factor in the near to medium term.

Weaknesses

>Moderation in profitability indicators

VG's profitability indicators have witnessed volatility since FY2021 on the back of fluctuating raw material costs during the FY2021-23 (Prov) period and a significant increase in its selling costs in FY2022. This is reflected in its operating profit (EBITDA) margin of 1.36 percent in FY2023 (Prov) as against 0.98 percent in FY2022 and 1.98 percent in FY2021, low net profit (PAT) margins of 0.24 times in FY2023 (Prov) as against 0.22 times in FY2022, and 0.25 percent in FY2021.

Acuite believes the profitability of the group will continue to be modest on account of the majority of turnover being received from the trading nature of operations.

>High competition, volatility in raw material prices, and risk of capital withdrawal

VG operates in the textile industry, which is highly competitive and marked by the presence of a large number of unorganized players. The main raw material used is cotton, prices of which are highly fluctuating and depend upon the monsoon. Thus, the group is exposed to fluctuations in the raw material prices of cotton. Further, prices of cotton are regulated by the government that assigns a Minimum Support Price (MSP) and any adverse changes in the government policies with respect to MSP could have an impact on margins. Further, Vivekanand Group is exposed to the risk of capital withdrawal considering its partnership constitution. Any significant withdrawal from the partner's capital will have a negative bearing on the financial risk profile of the group.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins and capital structure.
- Deterioration in the working capital cycle leading to stress on the debt coverage indicators or the liquidity position of the entity.

Material Covenants

None.

Liquidity Position

Adequate

VG has an adequate liquidity position marked by adequate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.6.76 crore in FY2023 (Prov) as against its maturing debt obligations of Rs.4.19 crore during the same period. The working capital cycle of the group is efficient marked by Gross Current Assets (GCA) days of 44 days in FY2023 (Prov) and 63 days in FY2022. The average bank limit utilisation stood at ~50-60 percent for the past 6 months ending June 2023. The group maintained unencumbered cash and bank balances of Rs.0.47 crore as on March 31, 2023 (Prov). The current ratio of group stood at 1.41 times as on March 31, 2023 (Prov) as against 1.38 times as on 31 March 2022.

Acuite believes that the liquidity of the entity is likely to remain adequate over the near to medium term.

Outlook:

Not Applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	750.08	971.68
PAT	Rs. Cr.	1.80	2.16
PAT Margin	(%)	0.24	0.22
Total Debt/Tangible Net Worth	Times	0.95	1.59
PBDIT/Interest	Times	2.01	1.67

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

CRISIL vide its press release dated 10th March 2023, had rated ACL to CRISIL B+/Stable; Issuer Not Cooperating.

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 May 2022	Proposed Bank Facility	Long Term	10.00	ACUITE BB+ Stable (Assigned)
	Packing Credit	Short Term	20.00	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
The Kalupur Commercial Cooperative Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A4+ Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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