

Rating Rationale

Brickwork Ratings assigns the ratings to 'BWR BBB' for Bank Loan facilities aggregating ₹ 194.89 Cr of Ahuja Cotspin Private Limited

Brickwork Ratings have assigned the **Rating¹** for Bank Loan facilities aggregating 194.89 Cr of Ahuja Cotspin Private Limited ('ACPL' or the 'Company') as follows:

Facility	Present Limits (₹ Cr)	Tenure	Rating
Fund Based: Cash Credit Term Loan I Term Loan II	89.65 64.24 41.00	Long Term	BWR BBB (Pronounced as BWR Triple B) Outlook:Stable
Total	194.89		INR One Hundred Ninety Four Crores and Eighty Nine Lakhs Only

Note: Term Loans are outstanding as on 09 Feb, 2016.

BWR has essentially relied upon the audited financials upto FY15 and projected financial data for FY16 & FY17 of Ahuja Cotspin Private Limited, publicly available information and information/clarification provided by the Company's management.

The ratings draw comfort from the experienced and resourceful promoters, established track record, consistent growth in revenues & net-worth, diverse product portfolio, systematic procurement and distribution channel, established client relationships, tie-ups with its suppliers, and continuous technology up-gradation. However, ratings are constrained by exposure to volatility in raw material prices, high inventory holding levels due to seasonal availability of cotton, working capital intensive nature of operations, thin profitability margins and fragmented nature of industry which makes the industry vulnerable to high competition.

Background:

Ahuja Cotspin Private Limited is a Private Limited Company incorporated in 2010 in Ludhiana and was promoted by Mr. Gulshan Ahuja and Mr. Ashok Ahuja.

ACPL is engaged in manufacturing of open ended yarn on Rotors system, cotton yarn on Ring Spinning System and Knitted cloth. It has combined installed capacity of 14,400 spindles, 2880 Rotors and 17 Knitting machines. The company sources raw material from the local market only.

The domestic market accounts for ~75% of the turnover of ACPL and remaining from export market. Its products are sold all over India and in overseas markets of China, Bangladesh, Egypt, and Vietnam.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

The company is under process for the installation of additional 14,400 Ring Frame Spindles making the total to 28,800 Ring Frame Spindles. The company has planned to achieve the COD of same project by May 2016.

Management Details:

The key management personnel are Mr. Gulshan Ahuja (Chairman), his brother, Mr. Ashok Ahuja (Director) and his son Mr. Vishal Ahuja (Director). The management and key personnel, though family members, are adequately qualified and experienced.

Financial Performance:

ACPL reported Total Operating Income of ₹ 206.41 Cr in FY15 against ₹ 96.37 Cr in FY14. During FY15, the company generated approx. 68.84 % revenue from Cotton Yarn sale; 27.84 % from Knitted cloth sale and remaining 3.32% from scrap sale. EBITDA margins were 13.61% and net profit margin 2.24% for FY15. Tangible Net worth increased from ₹ 43.23 Cr in FY 14 to ₹ 59.49 Cr in FY15. Total gearing and ISCR stood at 2.29 times & 1.82 times in FY15.

On a 9MFY16 provisional basis, the company has reported Total Operating Income of ₹ 183.41 Cr with EBITDA of ~₹ 40.62.

Rating Outlook:

The rating outlook is expected to be stable over current year. Going forward, the Company's ability to meet its projections & capacity expansion, sustain growth in operations, improve profitability and capital structure and manage it working capital efficiently to maintain liquidity will remain the key rating sensitivities.

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