

**AJAY COTSPIN INDUSTRIES**

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 47.37 Crores of Ajay Cotspin Industries (ACI or the ‘the firm’)**

**Particulars:**

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (April, 2019)	Present
<b>Fund based</b>	<b>55.92</b>	<b>43.48</b>	<b>Long Term</b>	<b>BWR BBB- (stable)</b>	<b>BWR BBB- Reaffirmed ( Stable)</b>
<b>Non Fund Based</b>	<b>3.88</b>	<b>3.88</b>	<b>Short Term</b>	<b>BWR A3</b>	<b>BWR A3 Reaffirmed</b>
<b>Total</b>	<b>55.92</b>	<b>47.37</b>	<b>INR Forty Seven Crores and Thirty Seven Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank facilities is provided in Annexure-I&II

**Rating: Brickwork ratings has reaffirmed the rating of BWR BBB-/A3 with stable outlook for bank loan rating of Ajay Cotspin Industries.**

**RATING ACTION / OUTLOOK**

The reaffirmation of rating continues to take comfort from comfortable financial risk profile, adequate liquidity position, efficient working capital management and firm’s locational advantage. The rating also factors the satisfactory financial profile marked by comfortable gearing clubbed with a moderate debt protection matrix. However, the rating is constrained by susceptibility of the profit margins to volatility in cotton and yarn prices, working capital intensive nature of operations

and competitive as well as the fragmented nature of the cotton industry. The rating is also constrained on account of expectation of adverse impact of COVID-19 on business operations of the firm.

Going forward, the ability of the company to increase its scale of operations and maintain its profitability remain as key rating sensitivity. Further, being a partnership firm, any significant withdrawal from the capital by the partners would adversely impact the capital structure of the firm.

### **Outlook: Stable**

BWR believes that Ajay Cotspin Industries' business risk profile will be maintained over the medium term. The 'stable' outlook indicates a low likelihood of the rating change over medium term.

### **KEY RATING DRIVERS**

BWR has relied upon the firm's audited financial results upto FY19, provisional financials of FY20, projections upto FY22 as well as publicly available information and the information/clarifications provided by the firm.

- **Comfortable financial risk profile:** Total operating income increased from Rs 126.91 Crs in FY18 to Rs 167.03 Crs in FY19. As per the provisional FY20, total operating income is Rs 140.55 Crs. In FY20, the firm hived off their lower margin ginning segment to associate concern Mahant Industries. The contribution from ginning activities was around Rs. 33 Crs with net profit of Rs. 0.03 Crs for FY20. Net profit margins have improved from 1.19% in FY18 to 1.70% in FY19. The firm has reported NPM of 2.20% for FY20. Overall gearing marked by TOL/TNW has marginally improved from 1.90 times in FY18 to 1.86 times in FY19. As per the provisional FY20, gearing has further decreased to 1.32 times.
- **Efficient working capital management:** The firm has maintained a consistently efficient conversion cycle of 60-75 days for the past 3 years.
- **Geographical advantage:** The manufacturing unit of the firm is located near the cotton producing belt of Saurashtra- Gujarat which gives easy access to availability of raw material.
- **Susceptibility of profit to volatility in cotton and yarn prices:** The profit margins are exposed to fluctuations in raw cotton prices, which depend on various factors such as seasonality, climatic conditions, global demand and supply situation and export policy. Further, on account of the demand disruption caused by COVID-19 pandemic, correction in yarn prices are expected.
- **Fragmented and competitive nature of industry:** There are a high number of organized



as well as unorganized players in the market. Hence, competition may have an adverse effect on the operating profit margin of the company and limits its bargaining power.

## **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

The firm is rated as a stand-alone entity. BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

## **RATING SENSITIVITIES**

**Positive:** The rating outlook may be revised to 'positive' in case the revenue & profit show sustained improvement.

**Negative:** The rating outlook may be revised to 'negative' if the revenue go down or profit margins show lower than expected figures. BWR may revise the ratings downwards due to deterioration of financial risk profile or stretched working capital cycle.

## **LIQUIDITY POSITION: Adequate**

ACI has net cash accruals of Rs 11.28 Crs in FY20 (provisional) which is at a comfortable level to service its debt obligations on a medium term. Net cash accruals/total debt is adequate at 0.28 times in FY20 (Provisional) against 0.21x times in FY19. Further, the current ratio is at 1.41 times indicating adequate liquidity in the firm.

## **FIRM'S PROFILE**

Established in 2015 as a partnership firm, Ajay Cotspin Industries (ACI) is engaged in ginning and spinning of cotton with annual capacity of 12000MT of cotton bales and 6000MT of yarn with spindle capacity of 25,536 spindles

**KEY FINANCIAL INDICATORS (in ₹ Cr)**

Key Parameters	Units	FY19	FY18
Result Type		Audited	Audited
Operating Revenue	₹ Cr	167.03	126.91
EBITDA	₹ Cr	16.54	16.74
PAT	₹ Cr	2.84	1.51
Tangible Net worth	₹ Cr	35.48	35.76
Total Debt/Tangible Net worth	Times	1.70	1.76
Current Ratio	Times	1.41	1.47

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA**

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY :**

CRA	Date	Rating
Crisil	22 Oct, 2019	CRISIL BB+/Stable/CRISIL A4+ Issuer not cooperating

## RATING HISTORY

Instrument / Facilities	Current Rating			Rating History		
	Tenure	Amount (₹ Cr)	Rating	April, 2019	2018	2017
Fund Based	Long Term	43.48	<b>BWR BBB- Reaffirmed ( Outlook Stable)</b>	<b>BWR BBB- (stable)</b>	NA	NA
Non Fund Based	Short Term	3.88	<b>BWR A3 Reaffirmed</b>	<b>BWR A3</b>	NA	NA
Total		<b>47.37</b>	<b>INR Forty Seven Crores and Thirty Seven Lakhs Only</b>			

## COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

#### General Criteria

#### Approach to Financial Ratios

#### Manufacturing Companies

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*Ajay Cotspin Industries*

### ANNEXURE I

#### Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)}	Short Term (₹ Cr)	Total (₹ Cr)
1.	Union Bank	Term Loan	28.43	0.00	28.43
		Cash Credit	3.00	0.00	3.00
		LC/BG	0.00	3.88	3.88
2.	HDFC Bank	Term Loan	7.06	0.00	7.06
		Cash Credit	5.00	0.00	5.00
<b>TOTAL</b>					47.37



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