



Rating Rationale

Ajay Cotspin Industries (ACI or The Firm)

25April2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 55.92 Crores of Ajay Cotspin Industries.

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	52.04	Long Term	BWR BBB- Pronounced as BWR Triple B Minus Outlook: Stable
Non Fund Based	3.88	Short Term	BWR A3 Pronounced as BWR A Three
Total	55.92	INR Fifty Five Crores and Ninety Two Lakhs Only	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the firm's audited financial results upto FY18, provisional financials of FY19, projections of FY20, FY21 as well as publicly available information and the information/clarifications provided by the firm.

Description of Key Rating Drivers

The Rating has factored in the moderate scale of operations, comfortable liquidity position, improved financial risk profile and firm's locational advantage. However, the rating is constrained by vulnerable profit margins and competitive as well as the fragmented nature of cotton industry.

Going forward, ability of the company to increase its scale of operations and maintain its profitability remain as key rating sensitivity. Further, vast deviation of FY19 provisional financials from its audited figures also serve as a key rating sensitivity. Furthermore, being a partnership firm, any significant



withdrawal from the capital/current account by the partners would adversely impact the capital structure of the firm.

Credit Strengths:

- **Moderate scale of operations:** Total operating income has increased from Rs 126.91 Crs in FY18 to Rs 167.01 Crs in FY19 (provisional). There is a robust growth of around 32% in the operating income.
- **Comfortable liquidity position:** ACI has net cash accruals of Rs 12.79 Crs in FY19 against Rs 12.57 Crs in FY18 which is at a comfortable level to service its debt obligations on a medium term. Net cash accruals/total debt is adequate at 0.22 times in FY19. Further, the current ratio is at 1.82 times indicating adequate liquidity in the firm.
- **Improved financial risk profile:** Firm's financial performance has improved from FY18 to FY19 reflected by decreased gearing from 1.83 times in FY18 to 1.68 times in FY19. Net profit margins have improved from 1.19% in FY18 to 1.94% in FY19. ROCE has increased from 5.76times in FY18 to 7.36 times in FY19 indicating efficient utilization of capital.
- **Geographical advantage:** The manufacturing unit of the concern is located near the cotton producing belt of Gujarat which gives easy access to availability of raw material.

Credit Risks:

- Profitability remains vulnerable to fluctuations in raw material prices and regulatory guidelines. 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.
- **Fragmented and competitive nature of industry:** There are 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

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

BWR believes the **Ajay Cotspin Industries** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.



About the Firm

Ajay Cotspin Industries (ACI) is a partnership firm established in 2015 in Mehsana, Gujarat. However, the firm commenced its operations in 2017. ACI is engaged in ginning and spinning of cotton and has a spindle capacity 25,536 spindles. The raw cotton is further processed in ginning department for the separation of lint and seed. The lint is later compressed in the form of bales weighing approximately 365 pounds while the seeds are processed to obtain cotton oil.

Firm's Financial Performance

ACI has reported an increase in total operating from FY18 to FY19 by 32%. Further, NPM has improved from 1.19% to 1.94% from FY18 to FY19 respectively. Tangible networth stood at Rs 34.99 Crs as on 31st March 2019 (Provisional).

Rating History for the last three years

S.No	Instrument /Facility	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating	2018	2017	2016
1.	Fund Based	Long Term	52.04	BWR BBB- Pronounced as BWR Triple B Minus Outlook: Stable	NA	NA	NA
2.	Non Fund Based	Short Term	3.88	BWR A3 Pronounced as BWR A Three			
Total			55.92	₹ Fifty Five Crores and Ninety Two Lakhs Only			

Key Financial Indicators

Key Parameters	Units	2019	2018
Result Type		Provisional	Audited
Operating Revenue	₹ Cr	167.01	126.91
EBITDA	₹ Cr	16.64	16.74



PAT	₹ Cr	3.24	1.51
Tangible Net worth	₹ Cr	34.99	34.91
Total Debt/Tangible Net worth	Times	1.68	1.83
Current Ratio	Times	1.82	2.22

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

Analytical Contacts	Media
<i>Jayraj Bhatt</i> <i>Director - Ratings</i>	media@brickworkratings.com
analyst@brickworkratings.com	Relationship Contact
	bd@brickworkratings.com
Phone: 1-860-425-2742	

For print and digital media

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI



and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.