



## RATING RATIONALE

23 Sept 2020

### Ambica Spintex Private Limited

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 30.81 Crores of Ambica Spintex Private Limited (ASPL or the ‘the company’)**

#### Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (28 June 2019)	Present
Fund based	35.28	29.31	Long Term	BWR B+ Stable	BWR B+ Stable Reaffirmed
Non Fund Based	1.50	1.50	Short Term	BWR A4	BWR A4 Reaffirmed
<b>Total</b>	<b>36.78</b>	<b>30.81</b>	<b>₹ Thirty Crores Eighty One 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

**Rating: Brickwork ratings has Reaffirmed the rating of BWR B+/A4 with stable outlook for bank loan rating of Ambica Spintex Private Limited.**

#### RATING ACTION / OUTLOOK

The ratings continue to take comfort from experience of promoters in the cotton spinning industry along with geographical advantage. The ratings also take note of marginal improvement in overall business performance of the company. However, the ratings are constrained by moderate scale of operations in a highly fragmented and competitive industry, susceptibility of the profit margins to volatility in cotton and yarn prices, weak financial profile characterised by high gearing and weak coverage indicators.

Going forward, ability of the company to increase its scale of operations along with improvement in profitability and efficient working capital management remain as key rating sensitivity.

#### **Outlook: Stable**

BWR believes that Ambica Spintex Private Limited’ business risk profile will be maintained over medium term .The ‘stable’ outlook indicates a low likelihood of the rating change over medium term.

## KEY RATING DRIVERS

### Credit Strengths:

- **Experience of promoters and need-based funding support from promoters:** The company derives benefits from the promoter's extensive experience of nearly three decades, their understanding of local market dynamics and long standing relationships with vendors and customers should continue to support the business. Mr Harsh Patel who looks after day to day business operations, has experience of around 7 years. The young management of the company is guided by Mr. Jayanti Patel who has more than 3 decades of experience in the line of business.
- **Overall business performance:** The company maintained the overall business performance even though Covid19 led economic slowdown impacted the company operation in Q4FY20 and Q1FY21. Company managed to record the sales at the same level with improved net profit margin. Gearing has also improved on back of lower utilisation of working capital limits and repayment of term debt.
- **Geographical advantage:** The manufacturing unit of the company is located near the cotton producing belt of Gujarat which gives easy access to availability of raw material.

### Credit risks:

- **Moderate scale of operations in a highly fragmented and competitive industry:** ASPL is a moderate-sized player in the fragmented industry with average revenues of around 55 Crs in the last three years with 14400 spindles capacity which restricts the benefits arising from economies of scale.
- **Financial profile characterised by stretched capital structure and weak coverage indicators** – ASPL's financial profile has been weak with TOL/TNW of 2.90 times due to high debt obligations and moderate net worth of 9.95 Crs for FY20. Though gearing is gradually improving, TOL/TNW marked at 2.90 times is still High. Both the debt protection metrics remained weak in FY20. However, promoters are willing to bring in additional USL to meet any Shortfalls in repayment of debt servicing.
- **Susceptibility to volatile raw material prices:** Profitability is very low and 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.

## ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

The company 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 along with improvement in liquidity and capital structure.



**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: Stretched**

Cash Accruals are barely sufficient to meet debt repayment obligation of around 3.25 crs per fiscal. Cash accruals of 2.58 crs in FY19 and 2.60 Crs against in FY20 against 3.25 Crs yearly repayment obligation. However promoters have brought in additional unsecured loans to meet the shortfall and are willing to bring in additional USL to meet any further shortfalls in repayment of debt servicing. The fund-based working capital limit of 6 crs was utilised at an average of 4 Crs over the last twelve months. The company has availed the moratorium from April-Aug 2020 under RBI Covid19 relief package.

**COMPANY’S PROFILE**

Ambica Spintex Pvt Ltd. (ASPL), is Sabarkantha based company incorporated in the year 2013, promoted by Mr. Jayantibhai Patel. The company is engaged in manufacturing of cotton yarn. The operations commenced from Oct 2016. The company has 14400 spindles with installed capacity of 2851 metric tonnes per annum of cotton yarn. The company has an associate concern namely Ambica Ginning Pressing Pvt Ltd.

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

Key Parameters	Units	2020	2019
Result Type		Audited	Audited
Operating Revenue	₹ Cr	52.34	59.50
EBITDA	₹ Cr	2.80	3.98
PAT	₹ Cr	0.09	0.08
Tangible Net worth	₹ Cr	9.95	9.82
Total Outside Liabilities/Tangible Net worth	Times	2.90	3.64
ISCR	Times	0.77	0.90
Current Ratio	Times	2.31	1.77

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

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

**Acuité vide its press release dated Jan 24, 2020 had denoted the rating as Acuite B-/stable/A4 ISSUER NOT COOPERATING**

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]**

Instrument / Facilities	Current Rating			Rating History		
	Tenure	Amount (₹ Cr)	Rating	11 Feb 2019 <sup>^</sup>	2018	2017
Fund Based	Long Term	<b>29.31</b>	<b>BWR B+ Stable Reaffirmed</b>	<b>BWR B+ Stable</b>	NA	NA
Non Fund Based	Short Term	<b>1.50</b>	<b>BWR A4 Reaffirmed</b>	<b>BWR A4</b>	NA	NA
Total		<b>30.81</b>	<b>INR Thirty Crores and Eighty One Lakhs Only</b>			

<sup>^</sup>Ratings were moved to RNR category in Feb 2020

**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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**Ambica Spintex Private Limited**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

<b>Sl. No.</b>	<b>Name of the Bank</b>	<b>Type of Facilities</b>	<b>Long Term (₹ Cr)</b>	<b>Short Term (₹ Cr)</b>	<b>Total (₹ Cr)</b>
1.	Bank Of Baroda	Term Loan	7.35	0.00	7.35
2.	Mehsana Urban Co-op Bank	Term Loan	15.96	0.00	15.96
		Cash Credit	6.00	0.00	6.00
		Bank Guarantee	0.00	1.50	1.50
<b>TOTAL: ₹ ThirtyCrores and Eighty One Lakhs Only</b>					<b>30.81</b>

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