



## Rating Rationale

**Anna Bhau Ajara Taluka Shetkari Sahakari Soot Girani Ltd., Ajara**

**5 Dec 2018**

**Brickwork Ratings assigns the ratings of 'BWR BB-/Stable' for the Bank Loan Facilities of ₹20.30 Crores of Anna Bhau Ajara Taluka Shetkari Sahakari Soot Girani Ltd, Ajara. ('Anna Bhau' or 'the Society')..**

### Particulars

| Facility#    | Amount<br>(₹ Crs) | Tenure                                     | Rating*  |
|--------------|-------------------|--|--|
| Fund Based   | 20.30             | Long Term                                  | <b>BWR BB-</b><br>(Pronounced as BWR Double B Minus)<br><b>Outlook: Stable</b> |
| <b>Total</b> | <b>20.30</b>      | <b>INR Twenty Crores Thirty Lakhs Only</b> |  |

#Refer **Annexure-I** for details of bank loan facilities

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

### Rationale/Description of Key Rating Drivers/Rating sensitivities

BWR has essentially relied upon the audited financial statements of the Company from FY15 to FY18, projected financials of FY19 and FY20, publicly available information and information/clarifications provided by the Society's management.

The ratings draw strength from increasing scale of operations, moderate Tangible Net Worth (TNW), proximity of cotton spinning unit to cotton growing areas, interest subsidy to help improve cash flows as well as experienced and qualified top management of the Society. The ratings are, however, constrained by negative debt-coverage metrics, stressed liquidity position, unhealthy profitability margins and volatile raw material prices exerting pressure on Society's margins.

Going forward, the Society's ability to return to profitability, increase its scale of operations, achieve the projections, better working capital management, availability of cash flows for timely servicing of interest/debt obligations strengthening of overall financial risk profile shall be the key rating sensitivities.

### Description of Key Rating Drivers

#### Credit Strengths

- **Increasing scale of operations as well as modest tangible net worth**

Anna Bhau achieved revenue of ₹79 Crs during FY18, increasing 18% from ₹67.40 Crs in FY17. Revenue is further expected to increase due to sizeable cotton yarn requirement in textile



industry. TNW, though declined in FY18 due to loss recorded in business, stood at modest level of ₹22.06 Crs as at 31-Mar-18. It was ₹25.23 Crs as at 31-Mar-17.

- **Proximity to cotton growing areas providing competitive advantage**  
Anna Bhau's cotton spinning unit is located in Ajara taluka in Kolhapur district of Maharashtra. This region is in proximity to cotton growing areas like Marathwada and Vidarbha, thereby leading to easy availability of better quality raw cotton and savings in logistic costs.
- **Eligible for interest subsidy to help improve cash flows**  
Anna Bhau is eligible to receive interest subsidy on soft loan from the state government under Maharashtra Textile Policy. This is expected to improve the cash flows in the near to medium term.
- **Experienced and qualified top management**  
Anna Bhau has 20-people strong top management. They have varied academic qualifications and also business experiences ranging from 3 years to 38 years. The Society has been in the cotton spinning industry since past 9 years.

#### **Credit Risks**

- **Negative debt coverage metrics**  
Debt coverage metrics remained negative marked by ISCR and DSCR of -0.84x and -0.01x as at 31-Mar-18, improving marginally from -1.26x and -0.17x as at 31-Mar-17.
- **Stressed liquidity position**  
Anna Bhau has stressed liquidity position marked by inadequate current ratio of 0.47x as at 31-Mar-18, same level as at 31-Mar-17. Current ratio is expected to remain stagnant in near-term. Net Cash Accruals was negative (-1.39 Crs) for FY18 marked by loss incurred by the Society.
- **Unhealthy profit margins**  
The Society continued to incur operating loss in FY18 with OPM being -1.47%, improving from -2.38% in FY17. Net profitability has also remained negative due to increasing interest burden. NPM during FY18 was -5.15% vis-a-vis -6.65% in FY17.
- **Moderately leveraged capital structure**  
Gearing ratio of the Society has increased gradually over the years and stood at 1.02x in FY18 as a result of continuous decline in TNW marked by loss incurred. It was 0.80x as at 31-Mar-17.
- **Profitability exposed to fluctuations in raw cotton prices along with seasonality and government regulations**  
The profit margin of the Society is exposed to fluctuation in raw cotton prices, which is



determined by the market demand-supply situation, the total production, agro-climatic risks, area under cultivation, export policy etc. Further, it is exposed to the regulatory risks as prices are decided through minimum support price set by the government.

### **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 **Anna Bhau Ajara Taluka Shetkari Sahakari Soot Girani Ltd, Ajara** 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 Society**

Based in Ajara taluka in Kolhapur district of Maharashtra, Anna Bhau is registered as a co-operative society. Though incorporated in 1979, the commercial operations commenced only in May 2009. Anna Bhau is presently engaged in manufacturing of cotton yarn and recently into garment manufacturing on job work basis. The yarn is sold in the brand name of '*Ajara Spin*'. Yarn is produced from the raw cotton purchased with the help of 22,704 spindles. Daily yarn production capacity of the unit is approx. 13,000 kgs.

### **Society's Financial Performance**

During FY18, Anna Bhau reported Total Operating Income (TOI) of ₹79 Crs as against ₹67.40 Crs in FY17 and net loss of ₹4.06 Crs as against ₹4.48 Crs in FY17. Total Debt amounted to ₹22.54 Crs while TNW stood at ₹22.06 Crs as at 31-Mar-18. Coverage ratios stood weak indicated by ISCR and DSCR of -0.84x and -0.01 respectively as at 31-Mar-18. While current ratio remained inadequate at 0.47x, gearing stood moderate at 1.02x as at 31-Mar-18.

Key financial indicators are disclosed in **Annexure-II**.



### Rating History for the last three years

| Sr. No.      | Instrument / Facility | Current Rating (December 2018) |                |  | Rating History    |                   |                   |
|--------------|-----------------------|--------------------------------|----------------|--|-------------------|-------------------|-------------------|
|              |                       | Type                           | Amount (₹ Crs) | Rating   | Date, Month, Year | Date, Month, Year | Date, Month, Year |
| 1.           | Fund Based            | Long Term                      | 20.30          | <b>BWR BB-</b><br>(Pronounced as BWR Double B Minus)<br><b>Outlook: Stable</b> | <b>Not rated</b>  |                   |                   |
| <b>Total</b> |                       |                                | <b>20.30</b>   | <b>INR Twenty Crores Thirty Lakhs Only</b>                                     |                   |                   |                   |

Status of non-cooperation with previous CRA: NA

Any other information: Nil

### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Sector](#)

| Analytical Contacts  | Media  |
|--|--|
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### Annexure-I Details of Bank Loan Facilities

| Name of the Bank | Facilities        | Tenure    | Amount<br>(₹ Crores) |
|------------------|-------------------|-----------|----------------------|
| Federal Bank     | Term Loan         | Long Term | 12.30                |
|                  | Cash Credit       |           | 3.00                 |
|                  | Cash Credit - WHR |           | 5.00                 |
| <b>Total</b>     |                   |           | <b>20.30</b>         |

**Annexure-II**  
**Key Financial Indicators**

| Key Parameters                | Units | FY2018  | FY2017  |
|-------------------------------|-------|---------|---------|
| Result Type                   |       | Audited | Audited |
| Operating Revenue             | ₹ Cr  | 79.00   | 67.40   |
| EBITDA                        | ₹ Cr  | -1.16   | -1.60   |
| PAT                           | ₹ Cr  | -4.06   | -4.48   |
| Tangible Net Worth            | ₹ Cr  | 22.06   | 25.23   |
| Total Debt/Tangible Net Worth | Times | 1.02    | 0.80    |
| Current Ratio                 | Times | 0.47    | 0.47    |

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**Note on complexity levels of the rated instrument:**

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**About Brickwork Ratings**

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