

Rating Report

Brickwork Ratings reaffirms “BWR BB” Ratings for the Bank Loan Facilities aggregating Rs. 40.71 Cr of AB Cotspin India Ltd, Bathinda.

Brickwork Ratings (BWR) has reaffirmed the **Ratings¹** for the Bank Loan Facilities of AB Cotspin India Ltd (‘ACIL’ or the ‘Company’), Bathinda, as follows:

Facility	Previous Amount (Rs. Cr)	Rating Amount (Rs Cr)	Tenure	Rating History	Ratings after review ¹
Fund Based Cash Credit	15.00	18.00	Long Term	BWR BB (BWR Double B) Outlook: Stable March 2015	BWR BB (BWR Double B) Outlook: Stable (Reaffirmed)
Term Loans/FLG/Buyer’s Credit	28.06	22.71			
Total	43.06	40.71	Rs. 40.71 Cr (INR Forty Crores & Seventy One Lakhs Only)		

BWR has essentially relied upon the audited financial results up to FY15, projected financials upto FY16, publicly available information and information/clarifications provided by the Company.

The ratings continue to draw comfort from the extensive experience of the promoters in the industry, integrated nature of its operations, strategic location of the plant considering easy availability of raw cotton, sustained operating margins, significant business synergy and group support. The rating is, however, constrained by decrease in topline, working capital nature of operations, below average financial risk profile of the company marked by low profitability and high gearing and exposure to risks arising from the volatility in raw cotton prices.

Background:

Originally incorporated in 1997 as Ganga Cottex Ltd, the company was subsequently acquired by A B Cotspin India Ltd in Oct 2010. Based in Bathinda, Punjab, ACIL is engaged in the manufacturing of cotton yarn and cloth. It is also engaged in the trading of allied products such as cotton seed, cotton seed cake etc. ACIL’s manufacturing facility is located at Faridkot, Bathinda.

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

ACIL has installed 24 ginning machines with a capacity of 200 bales per day, 18000 spindles with a capacity of 17MT of yarn per day and 6 circular knitting machines with a capacity of 3000kg of cloth per day.

Management Profile:

Homeland Group comprises diversified businesses including real estate development, trading of edible oils, manufacturing of agro commodities and fertilizers & pesticides etc. The company is promoted by Mr. Rahul Goyal and Mr. Piyush Kansal. Most of the Companies under the Homeland Group are led directly by their family members.

Recent Updates:

- Changes in the Bank Exposure: In the current financial year, ACIL has enhanced its cash credit limit from Rs. 15.00 Cr to Rs. 18.00 Cr for the purpose of increasing working capital limits. The outstanding balances of term loans availed is Rs. 22.71 Crs as on 30.11.2015
- Decline in Total Operating Income – ACIL’s total operating income has declined by 21.14% on account of decrease in the prices of raw cotton in the market (refer to Slide 6). However, in terms of volume, it has improved consistently over the past three years. Till Sept 2015, ACIL has achieved the turnover of Rs. 49.06 Crs and expects to reach upto Rs. 100.00 Crs in the current financial year.
- Installed Capacity and Its Utilization Level
 - Spinning Division: The unit has 18000 spindles with a capacity of 17MT of yarn per day. The utilization is almost remains the same (compare to the last year). The unit has manufactured 51, 44,538 kg yarn which is around 95% of the total capacity.
 - Ginning Division: The Ginning division has a capacity of 200 bales per day. Since, the cotton season has started and arrival is on lower side, The average utilization of bales per day for the month of Oct and Nov is around 100 bales per day (around 50% utilization of the installed capacity)
 - Knitting Division: ACIL has postponed installing its remaining machineries during FY15. Currently, it has installed only 6 out of 13 machineries (proposed), having a capacity of 3000 kg of cloth per day. During FY15, the utilization was at 85% level.
- Improvement in Operating Profit Margins – Despite decline in top line, ACIL’s operating margin remains at above 10% level. It has improved from 10.18% in FY14 to 12.92% in FY15. Net margins also improved slightly during FY15. Net margins stood at 0.64% in FY15.
- No Change in Total Share Capital – No change in share capital during FY15. Total Networth has increased from Rs. 13.87 Crs in FY14 to Rs. 14.37 Crs in FY15 on account of accumulation of profits in reserves & surplus.

- **Gearing Levels** – ACIL has moderate financial risk profile, backed by moderate tangible networth against its total debt obligations. Gearing ratio of the Company remains high at 3.60 times in FY15, on account of interest free un-secured loans availed from its own associate concerns. The analysed gearing ratio of the Company stood at 0.98 times in FY15. However, gearing ratio is expected to increase on account of enhancement made in its Cash Credit limit by Rs. 3.00 Cr.
- **Moderate Debt Protection Metrics** – ACIL’s debt protection metrics remain at moderate level, with net cash accruals to total debt and interest coverage at 10% and 1.92 times, respectively. With expected increase in bottom line, the company’s debt protection metrics are expected to improve over the medium term.
- **Elongated Conversion Cycle during FY15** - ACIL’s operations remain working capital intensive, as reflected in its gross current assets of 169 days as on 31st March, 2015; largely on account of high level of inventory maintained throughout the year. The Company has to procure raw cotton available during peak season for 4 months only (Dec-March) and sale of finished goods happens all around the year. Thus, inventory level remains high throughout the year.

Financial Performance:

Total Operating Income declined from Rs. 99.90 Crs in FY14 to Rs. 78.76 Crs in FY15. ACIL reported PAT of Rs. 0.50 Cr in FY15 as against Rs. 0.47 Cr in FY14. Tangible Networth of the company stood at Rs. 14.36 Crs in FY15.

Rating Outlook

ACIL is a fully integrated manufacturer and exporter of cotton yarn, cloth & other allied products. During FY15, there were no changes in the existing installed capacity and its utilization level remained almost the same compared to last year.

The rating outlook is expected to remain stable over the current year. Going forward, the ability of the company to improve its top line and profits amidst volatility in the raw cotton prices & high interest expenses, strengthen its capital structure and manage its working capital efficiently shall be the key rating sensitivities.

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AB Cotspin (India) Ltd
Annexure I – Profit & Loss Account

Particulars (in Crs)	FY13	FY14	FY15
Result Type	Audited	Audited	Audited
Gross Sales	86.45	99.35	77.90
Traded Goods Sales	0.00	0.00	0.00
Excise Duty/Sales Tax	0.00	0.00	0.00
Net Sales	86.45	99.35	77.90
Other Operating Income	0.21	0.55	0.86
Total Operating Income	86.66	99.90	78.76
Operating Expenses	74.61	89.72	68.59
OPBDIT	12.04	10.17	10.18
Depreciation/Amortization/Impairment	5.89	5.36	4.53
OPBIT	6.15	4.81	5.65
Interest and Finance Charges	6.29	4.61	5.29
OPBT	-0.14	0.20	0.36
Non Operating Income(Expenses)	0.57	0.41	0.26
PBT	0.43	0.61	0.62
Provision for Taxes	0.08	0.14	0.12
PAT	0.35	0.47	0.50

AB Cotspin (India) Ltd
Annexure II – Balance Sheet

Particulars (in Crs)	FY13	FY14	FY15
Result Type	Audited	Audited	Audited
Liabilities			
EQUITY AND RESERVES	13.40	13.87	14.37
Share capital	2.67	2.67	2.67
Reserves and Surplus	10.73	11.20	11.70
Non-current liabilities	39.17	38.97	38.13
Long-Term Borrowings	31.85	31.65	38.13
Other Long Term liabilities	7.32	7.32	0.00
Current liabilities	26.27	27.80	15.26
Short-Term Borrowings	22.09	24.09	13.56
Trade Payables	2.71	2.58	1.39
Other Current Liabilities	1.03	0.87	0.01
Short-Term Provisions	0.44	0.25	0.31
Total Liabilities	78.84	80.64	67.76
ASSETS			
Non-current assets	41.46	37.62	37.93
Net Fixed assets	40.93	36.32	37.52
Capital Work-In-Progress	0.11	0.90	0.00
Non Current Investments	0.01	0.01	0.01
Long Term Loans and Advances	0.01	0.00	0.00
Other Non Current Assets	0.37	0.37	0.39
Miscellaneous Expenditure To the Extent Not Written off(Non Current)	0.03	0.02	0.01
Current assets	37.38	43.02	29.82
Current Investments	0.00	0.00	0.00
Inventories	27.36	27.29	21.60
Trade Receivables > Six Months	0.06	0.06	0.57
Trade Receivables < Six Months	2.59	9.42	5.00
Cash and Cash Equivalentents	4.24	5.20	1.50
Short-Term Loans and Advances	3.13	1.04	1.15
Total Assets	78.84	80.64	67.76

AB Cotspin (India) Ltd
Annexure III – Ratio Analysis

Particulars (in Crs)	FY13	FY14	FY15
Result Type	Audited	Audited	Audited
Total Debt	53.95	55.74	51.69
Total Debt (Analyzed)	50.72	50.50	32.62
Tangible Net Worth	13.37	13.85	14.36
Tangible Net Worth (Analyzed)	16.59	19.09	33.42
Capital Employed	67.31	69.59	66.05
Total Debt/TNW	4.04	4.03	3.60
Total Debt/TNW(Analyzed)	3.06	2.64	0.98
Long Term Debt/TNW	2.38	2.29	2.66
TOL/TNW	4.41	4.06	1.06
ISCR	1.91	2.21	1.92
DSCR	1.99	1.14	1.05
Net Cash Accruals/Total Debt	0.12	0.11	0.10
Net Profit Margin	0.40	0.47	0.64
Operating Profit Margin	13.90	10.18	12.92
ROCE	9.13	7.03	8.33
Current Ratio	1.42	1.55	1.95
Days Receivables	11	22	35
Days Inventory	136	114	134
Days Payable	14	13	15
Conversion Cycle	134	123	154

(As per BWR Calculations)