

Rating Report

Brickwork Ratings assigns 'BWR BB' for the Bank Loan Facilities aggregating ₹ 43.06 Cr of AB Cotspin India Ltd.

Brickwork Ratings (BWR) has assigned the following **Ratings**¹ for the Bank Loan Facilities of AB Cotspin India Ltd ('ACIL' or 'the Company'):

Facility	Limits (₹ Cr)	Tenure	Rating
Fund Based			
Cash Credit	15.00	Long Term	BWR BB (BWR Double B) (Outlook: Stable)
Term Loan/FLG/Buyer's Credit	28.06		
Total	₹ 43.06 Crores (INR Forty Three Crores & Six Lakhs Only)		

BWR has principally relied upon the audited financial statements up to FY14, projections upto FY16, publicly available information and information/clarifications provided by the company's management.

The rating assigned derive comfort from the strong support of the Bathinda based Homeland Group of companies in view of commonality of management and significant business synergies, fully integrated nature of operations and strategic location of the plant. The ratings are, however, constrained by the short track record of operations, below average financial risk profile of the company marked by low profitability and high gearing, exposure to risks arising from the volatility in raw cotton prices and agro climatic conditions, presence in a highly competitive and fragmented industry and working capital intensive nature of operations.

Background:

Originally incorporated in 1997 as M/s 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. 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.

The company gets benefit of interest reimbursement at 4% p.a. on the basic cost price of Plant & Machinery under TUF as per the guidelines of Ministry of Textiles, Govt. of India. The project is being established as Agro Mega Project as per Industrial policy of Punjab Government.

During FY14, ABC has installed new machineries for knitting activities in Dec 2014 and also upgraded its existing spinning mill by installing new carding machinery and auto doffer for ring frame. The total cost of upgrading existing plant & installing new knitting machines is Rs.7.12 Cr funded by additional term loan of Rs. 5.00 Cr and rest from promoters of the company.

Details of Plant & Machinery and Its Installed Capacity

Ginning Division

- AB Cotspin runs 24 Ginning machines for 20 hours a day.
- The capacity of plant & machinery is 200 bales per day.
- AB Cotspin runs these machineries as per the requirement of its Spinning division.
- The average requirement of spinning division in the current financial year is 160 bales per day.
- AB Cotspin has installed 6 expellers which is used for crushing cotton seeds. Company also sells cotton seeds in the outside market when margins are good.
- The capacity of expeller for crushing of seed is 70 Quintal per day.
- Ginning division has generated a turnover of Rs. 16.00 Cr in FY14.

Spinning Division

- The spinning unit has 18000 spindles having capacity of producing 17000 kg of yarn per day.
- AB Cotspin manufactured 51, 44,538 kg yarn which is around 95% of the total capacity in the current financial year.
- AB Cotspin has upgraded its Plant & Machinery by installing new carding machinery and auto doffer for ring frame.

Knitting Division

- AB Cotspin has installed 7 out of 13 machineries for knitting division in Dec 14.
- The current capacity utilization is 95% (currently producing 3000 kg per day)
- All its cotton yarn requirement is being fulfilled from its own spinning division.
- AB Cotspin expects a revenue of Rs. 7.00 Crs from its knitting division in FY15, which is expected to increase upto Rs. 40 Crs in the next financial year.

Management Profile:

Homeland Group comprises of 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.

Name of Director	Age	Designation	Experience
Rahul Goyal	28	Director	Mr. Rahul Goyal S/o of Mr. Bishnu Goyal, who is a key promoter of Homeland Group with business experience of more than 30 years. Mr. Rahul looks after the overall purchases & operations of the company under his father's (Mr. Bishnu) guidance.
Piyush Kansal	24	Director	Mr. Piyush Kansal belongs to the same family group. His father, Mr. Vijay Kansal is one of the directors in a transformer manufacturing company – Maha Shakti Energy Ltd. Mr. Piyush handles the financial matters of the company.
Samita Goel	30	Director	Mrs. Samita Goel, w/o Mr. Deepak Goel, who is also one of the promoters in Homeland Group. She does not participate in the day to day activities of the company.

Homeland Group:

Homeland Group is a well-established group in North India having its corporate office at New Delhi. The group is promoted by Shree Bishnu Kumar and Shree Hemant Jindal who have a vast experience and proven record in the field of manufacturing, processing , trading, Real Estate and educational activities. The Turnover of the Group is more than Rs 1000 crore (including all the Companies) with a networth of Rs. 157.48 Cr in FY14.

Credit Risk Analysis:

Experienced Management

The promoters of the Group are Mr. Hemant Jindal and Mr. Bishnu Goyal. Most of the Companies under the Group are led directly by the promoters themselves or by their sons. Presently the Directors of the Company are Mr. Hemant Jindal, Mr. Kewal Krishan Jindal and Ms Renu Jindal. Mr. Hemant Jindal looks after the overall business operations of the Company and holds more than three decades of experience in the industry.

Below average financial risk profile:

AB Cotspin's financial risk profile is below average marked by low tangible networth, high gearing levels and low accretion to reserves & surplus during FY14. Further, gearing ratio is expected to be around 4.64 times in FY15 due to debt-funded capex incurred for upgrading its existing spinning unit & purchasing new knitting machines.

Low profitability:

Operating margins decline from 13.90% in FY13 to 10.18% in FY14 due to fluctuation in raw cotton prices & increasing power & fuel costs. Since the unit was working with raw materials purchased at a higher rate during lean season, margins went down in FY14. However, Company has procured maximum cotton during peak season which has resulted in better margins in the current financial year.

Working Capital intensive nature of Operations:

ABC's operations remain working capital intensive, as reflected in its gross current assets of 127 days as on 31st March, 2014; 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 of the Company has increased from ₹ 86.66 Cr in FY13 to ₹ 99.90 Cr in FY 14. ACIL has reported PAT of ₹ 0.47 Cr for FY14 as compared to ₹ 0.35 Cr for FY13. The Company expects to achieve a total turnover of Rs. 107.70 Cr in FY15.

Rating Outlook

The rating outlook is expected to be stable over the current year. Going forward the Company's ability to sustain its revenue growth, improve its profitability amidst volatility in the raw cotton prices, strengthen its capital structure, manage its working capital efficiently and ensure continued funding support from promoters and the group companies shall be the key rating sensitivities.

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AB Cotspin India Ltd
Annexure I – Profit & Loss Account

Crores	FY12	FY13	FY14
Result Type	Audited	Audited	Audited
Gross Sales	21.91	86.45	99.35
Traded Goods Sales	0.00	0.00	0.00
Excise Duty/Sales Tax	0.00	0.00	0.00
Net Sales	21.91	86.45	99.35
Other Operating Income	0.01	0.21	0.55
Total Operating Income	21.92	86.66	99.90
Operating Expenses	19.90	74.61	89.72
OPBDIT	2.01	12.04	10.17
Depreciation	1.19	5.89	5.36
OPBIT	0.83	6.15	4.81
Interest and Finance Charges	1.03	6.29	4.61
OPBT	-0.20	-0.14	0.20
Non-Operating Income	0.22	0.57	0.41
PBT	0.02	0.43	0.61
Provision for Taxes	0.00	0.08	0.14
PAT	0.02	0.35	0.47

AB Cotspin India Ltd
Annexure II – Balance Sheet

Crores	FY12	FY13	FY14
Result Type	Audited	Audited	Audited
Liabilities			
EQUITY AND RESERVES	4.68	13.40	13.87
Share capital	0.99	2.67	2.67
Reserves and Surplus	3.69	10.73	11.20
Non-current liabilities	46.00	39.17	34.97
Long-Term Borrowings	38.68	31.85	27.65
Other Long Term liabilities	7.32	7.32	7.32
Current liabilities	18.78	26.27	31.80
Short-Term Borrowings	13.87	22.09	24.09
Current Portion Of Long Term Debt	0.00	0.00	4.00
Trade Payables	4.09	2.71	2.58
Other Current Liabilities	0.68	1.03	0.87
Short-Term Provisions	0.14	0.44	0.25
Total Liabilities	69.46	78.84	80.64
ASSETS			
Non-current assets	45.24	41.46	37.62
Net Fixed assets	44.83	40.93	36.32
Capital Work-In-Progress	0.00	0.11	0.90
Non Current Investments	0.01	0.01	0.01
Long Term Loans and Advances	0.06	0.01	0.00
Other Non Current Assets	0.30	0.37	0.37
Miscellaneous Expenditure To the Extent Not Written off(Non Current)	0.04	0.03	0.02
Current assets	24.23	37.38	43.02
Inventories	16.17	27.36	27.29
Trade Receivables > Six Months	0.00	0.06	0.06
Trade Receivables < Six Months	2.32	2.59	9.42
Cash and Cash Equivalents	3.72	4.24	5.20
Short-Term Loans and Advances	2.02	3.13	1.04
Total Assets	69.46	78.84	80.64

AB Cotspin India Ltd
Annexure III – Financial Ratios

Crores	FY12	FY13	FY14
Result Type	Audited	Audited	Audited
Total Debt	52.56	53.95	55.74
Tangible Net Worth	4.64	13.37	13.85
Capital Employed	57.19	67.31	69.59
Total Debt/TNW	11.34	4.04	4.03
Long Term Debt/TNW	8.34	2.38	2.29
TOL/TNW	11.12	4.41	4.06
ISCR	1.95	1.91	2.21
DSCR	2.17	1.06	1.14
Net Cash Accruals/Total Debt	0.02	0.12	0.11
Net Cash Accruals/Long Term Debt	0.03	0.20	0.19
Net Profit Margin	0.09	0.40	0.47
Operating Profit Margin	9.18	13.90	10.18
ROCE	1.45	9.88	7.03
Current Ratio	1.29	1.42	1.55
Days Receivables	39	10	22
Days Inventory	301	109	114
Days Payable	45	17	13
Conversion Cycle	294	102	123