

## Rating Rationale

### Brickwork Ratings assigns 'BWR D' for the Bank Credit Facilities amounting to ₹ 22.34 Cr of Amitech Industries Ltd.

Brickwork Ratings (BWR) has assigned the following **Rating<sup>1</sup>** for the Bank Credit Facilities of Amitech Industries Ltd ("*AIL*" or "*the Company*").

Facility	Limits (₹ Cr)	Tenure	Rating
<b><u>Fund Based</u></b>			<b>BWR D</b>
TL	11.08	Long Term	
CC*	11.00		
<b><u>Non Fund Based</u></b>			
LC*	0.50	Short Term	
BG	0.26		
<b>Total</b>	<b>22.34</b>	<b>(INR Twenty Two Crores &amp; Thirty Four Lakhs only)</b>	

*\*Maximum combined limit of CC & LC should not exceed ₹ 11.00 Cr*

BWR has principally relied upon the audited financial results of Amitech Industries Ltd up to FY 13 and further projected financials, publicly available information and information/clarification provided by the Company management.

The ratings assigned to the bank facilities of AIL is constrained by modest scale of operation, low profitability, working capital intensive nature of operation, moderate liquidity position & delays in repayment obligation, weak financial risk profile marked by relatively high gearing, customer concentration risk and its presence in the highly competitive and fragmented yarn processing segment. The rating, however, draws strength from the vast experience of the promoters, established track record of operation and its diversified revenue stream from processing of various types of high quality texturized dyed yarn.

### Background

Incorporated in 1992 AIL is engaged in texturizing, dyeing and processing of man-made yarns. The processing unit of AIL is located at Panki, Kanpur. It is promoted by Mr. Anil Pandey, who is having more than three decades experience in the man-made yarn business. AIL is an ISO 9001:2008 certified company.

### Operation

AIL is primarily engaged in the manufacturing of polyester filament yarns from Partially Oriented Yarn (POY) in the range of 30 to 3000 denier i.e. texturized, intermingled (Roto), twisted and dyed yarn. POY is primarily procured from the domestic market. The sales mix of AIL is well-diversified across the various types of yarn. Company caters to the needs of entire value chain in textile industries through different yarns used in knitting, upholstery, home furnishings, industrial, auto motives, tapes and elastic, dress material, suiting, shirting and sarees. AIL markets its product under "A1" Brand.

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

In FY 14 AIL doubled its production capacity to 4320 tons pa by establishing another unit adjacent to the old plant .Total cost of the project is ~15.00 Cr which has been funded through debt equity of 2.3:1. New plant is expected to start production from mid Nov 13. Company is planning to enter in to new product category i.e. medical textile including non-woven products to strengthen its market. The business of AIL is restricted to dyeing & processing of yarn, a segment which has limited value addition when compared to the large value chain of textile industry. AIL is a small player in a highly fragmented textile industry which limits its bargaining power with customers & suppliers. The industry is characterized by low entry barriers due to minimal capital required, resulting in emergence of large number of unorganized players based out of Uttar Pradesh for polyester yarn processing. As a result, AIL faces high degree of competition due to its presence in a fragmented industry.

### Financial Performance

The scale of operations of AIL is modest considering its total income of Rs.25.22 Cr and its net worth of Rs.6.22 Cr during FY13. Total income from operations of AIL had increased at a Compounded Annual Growth Rate (CAGR) of ~6.5% during FY09 to FY13 on account of the increased sales volume supported by the higher demand. Despite of decline in sales volume by 5% y-o-y as a result of slowdown in demand, total operating income increased by 10% during FY13 on account of softening in material prices. The profitability remained thin due to the limited value addition. While EBITDA margin remained at around 7% to 8%, PAT margin remained below 1.50% in the last three years. The overall gearing, though improved, stood high at 1.98 times in FY 13 as against 2.04 times in FY 12, primarily owing to partial repayment of bank borrowings and increase in internal accruals . While interest coverage remained stable over last three years, total debt/GCA slightly deteriorated during FY13 due to higher debt level as on March 31, 2013. The operations of AIL are working capital intensive as indicated by net working capital as a percentage of total capital employed of around 60% during the last three years. Current ratio remained low at 0.77 below the unity level in FY 13 while working capital cycle remaining in the range of 80-100 days during this period. Overall, the liquidity was low as is evident from the average fund based working capital utilization of 93% during the trailing 12 months ending March 2013.

### Rating Outlook

The ability of the company to start production from the new plant as per the scheduled time line, manage its working capital effectively along with improvement in financial risk profile and better liquidity position would be the key rating sensitivities.

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### **Annexure I - Key Financials – Amitech Industries Ltd.**

Particulars (₹ Cr)	2011	2012	2013
	A	A	A
Operating Income	18.49	26.54	25.22
EBITDA	1.61	1.84	2.03
PAT	0.20	0.33	0.36
Long term borrowings	3.41	5.41	3.93
Short term borrowings	5.55	5.86	8.36
Total Debt	8.96	11.27	12.29
Paid Up Equity Capital	1.16	1.40	1.40
Reserves & Surplus	7.66	7.92	8.28
Tangible Net worth (Rs. Cr)	4.94	5.52	6.22
Debt to Equity (x)	1.81	2.04	1.98
Interest Coverage (x)	1.53	1.57	1.76
DSCR(x)	1.17	1.06	0.91
EBITDA Margin (%)	8.72%	6.93%	8.05%
PAT Margin (%)	1.09%	1.24%	1.42%
Net Cash Accruals / Total Debt (x)	0.09	0.09	0.07
Current Ratio (x)	0.86	1.11	0.77

*\*Calculations has been based on BWR ratio definition*