

May 17, 2021

## Arihant Spintex Pvt. Ltd.: Ratings reaffirmed and withdrawn

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	3.94	3.94	[ICRA]BBB- (Stable); reaffirmed and withdrawn
Term Loan	6.87	6.87	[ICRA]BBB- (Stable); reaffirmed and withdrawn
Unallocated	10.44	10.44	[ICRA]BBB- (Stable); reaffirmed and withdrawn
Non-fund Based	0.75	0.75	[ICRA]A3; reaffirmed and withdrawn
<b>Total</b>	<b>22.00</b>	<b>22.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has reaffirmed and withdrawn the rating assigned to the bank facilities of Arihant Spintex Pvt. Ltd. (ASPL) at the request of the company, based on the no objection certificate (NOC) provided by the company's banker. This is in line with ICRA's policy on withdrawal of credit ratings.

The ratings continue to take comfort from the company's continued conservative capital structure and healthy debt coverage metrics. The ratings also drive comfort from the limited inventory risk of operations due to easy availability of raw materials throughout the year. Thus, any volatility in raw material prices has limited impact on ASPL's operating margins. The ratings continue to note its competitive advantage due to proximity to the cotton-growing areas of Punjab, the subsidy under Technology Upgradation Fund Scheme (TUFS), which supports profitability and low working capital intensity of the operations.

The ratings, however, continue to be constrained by ASPL's moderate and range bound scale of operations in the highly competitive textile spinning industry, thus limiting the benefits arising from economies of scale. The ratings are also constrained by the commoditised nature of its products and the fragmented industry structure, which leads to limited pricing power. Furthermore, ASPL's operations are also exposed to regulatory risks. The ratings are subdued on account of volatility in operating margins in the past few years, although debt coverage indicators are still healthy owing to low dependence on external debt. While reaffirming the ratings, ICRA took note of the slight reduction in company's operating income (OI) in FY2020, coupled with decline in operating margins. However, the company is expecting an improvement in operating margins in FY2021. Moreover, there has been a healthy recovery in ASPL's sales in the latter half of the fiscal, following the pandemic impact on its operations in the first quarter.

The Stable outlook on [ICRA]BBB- rating reflects the benefits arising from ASPL's experienced management and low reliance on external debt.

### Key rating drivers and their description

#### Credit strengths

**Experienced promoters and management** – The promoters and their families have been involved in the textile business for more than two decades. Such a long presence in the industry has helped the company in establishing relationships with suppliers and customers.

**Comfortable debt coverage metrics and efficient working capital management** – ASPL has been continuously reducing its total debt outstanding by pre-payment of its long-term debt. The company's interest coverage remained healthy at 8.55 times in FY2020 and is expected to improve further in FY2021. Moreover, the working capital intensity is estimated to have remained comfortable at ~8% in FY2021 due to timely realisation of debtors.

### Credit challenges

**Modest scale of operations** – ASPL's scale of operations has remained modest over the years with an operating income (OI) of Rs. 65.80 crore and Rs. 69.52 crore registered in FY2020 and FY2019, respectively. This limits the advantages derived from economy of scale, thus restricting the company's competitive position.

**Exposure to volatility in raw material prices** – The domestic cotton and polyester prices are closely connected to the global demand.

**Fragmented and intensely competitive industry** – The commoditised nature of product, coupled with the fragmented industry structure, leads to limited pricing power and is expected to keep the profitability muted over the long run.

### Liquidity position: Adequate

ASPL exhibits adequate liquidity on account of healthy cushion available in the form of undrawn working capital limits. The bank-funded limits have remained primarily un-utilised during the last 12-month period ending in January 2021. Further, absence of any major long-term loan obligations and consistent cash accruals, over the years, provide additional comfort to liquidity.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if ASPL shows sustained growth in scale with improved profit margins, leading to an improvement in the overall credit metrics. Specific credit rating metrics that may lead to positive rating action includes, but not limited to, RoCE above 14% on a sustained basis.

**Negative factors** – The ratings could be downgraded in case of a substantial decline in the revenues and operating margins, resulting in subdued cash accruals. Any significant debt-funded capital expenditure leading to deterioration of credit profile could result in a negative rating action.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Policy on withdrawal of credit ratings</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of ASPL.

### About the company

ASPL, incorporated in May 2014, began commercial production of cotton and polyester blend yarn in September 2014 at its manufacturing unit at Amloh (Punjab). At present, the company has production capacity of 10,000 MTPA. It uses the open-end method for manufacturing cotton yarn and has 4,032 rotors installed in its production facility. The company's product profile is concentrated on the lower medium counts ranging from the 7s to the 30s.

## Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	69.52	65.80
PAT (Rs. crore)	5.47	1.13
OPBDIT/OI (%)	15.26%	8.20%
RoCE (%)	23.8%	7.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.53x	0.45x
Total Debt/OPBDIT (times)	0.81x	1.25x
Interest Coverage (times)	11.09x	8.55x
DSCR (times)	1.98x	1.98x

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 21, 2021 (Rs. crore)	Date & Rating		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					May 17, 2021	Mar 25, 2021			
1	Cash Credit	Long Term	3.94	-	[ICRA]BBB- (Stable) reaffirmed and withdrawn	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)
2	Term Loan	Long Term	6.87	1.87	[ICRA]BBB- (Stable) reaffirmed and withdrawn	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)
3	Unallocated	Long Term	10.44	-	[ICRA]BBB- (Stable) reaffirmed and withdrawn	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)
4	Non-fund Based	Short Term	0.75	-	[ICRA]A3 reaffirmed and withdrawn	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4+

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term loan	Simple
Non-fund based Letter of Credit	Very Simple
Unallocated limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

#### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	3.94	[ICRA]BBB- (Stable) reaffirmed and withdrawn
NA	Term Loan	April 2016	-	Mar 2022	6.87	[ICRA]BBB- (Stable) reaffirmed and withdrawn
NA	Unallocated	-	-	-	10.44	[ICRA]BBB- (Stable) reaffirmed and withdrawn
NA	Non-fund Based	-	-	-	0.75	[ICRA]A3 reaffirmed and withdrawn

**Source:** Company

#### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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