



Press Release

Ayyappa Cotton Mills Private Limited (ACMPL)

April 29, 2024

Ratings:

Facilities	Amount (Rs. crore)	Ratings	Rating Action	<u>Complexity Indicator</u>
Fund Based Long Term Bank Facilities	26.44	IVR BB-/Stable outlook (IVR Double B minus With Stable Outlook)	Upgraded and removed from the ISSUER NOT COOPERATING CATEGORY	Simple
Fund Based Long Term Bank Facilities – Proposed	1.76	IVR BB-/Stable outlook (IVR Double B minus With Stable Outlook)	Upgraded and removed from the ISSUER NOT COOPERATING CATEGORY	Simple
Total	28.20 (Rupees Twenty Eight crore and twenty lakhs only)			

Details of Facilities are in Annexure 1

Detailed Rationale:

The upgradation of the ratings to the bank facilities of Ayyappa Cotton Mills Private Limited derive strength from its experienced promoters and management, growth in its total income in FY23, and proximity to raw material growing area. However, these rating strengths remain constrained by volatility in revenue marked by estimated decline in revenue in FY24, intense competition, exposure to agro-climatic risks, seasonality in cotton industry, moderate capital structure and risk associated with volatility in the raw material prices.

The rating was migrated to ISSUER NOT COOPERATING category as ACMPL had not submitted all the required information for surveillance under the stipulated timelines. Subsequently, ACMPL has cooperated and provided the information leading to removal of the rating from ISSUER NOT COOPERATING category.



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Key Rating Sensitivities:

Upward Factors:

- Substantial & sustained improvement in the Company's revenue and/or profitability while maintaining the debt protection parameters.

Downward Factors:

- Any decline in operating income and/or profitability leading to deterioration in overall financial risk profile of the company.
- Any debt funded capex leading to deterioration in the debt protection parameters and/or the liquidity position of the company.

Key Rating Drivers with detailed description:

Key Rating Strengths:

Experienced promoters and management

The promoters', S.Venkateswar Reddy , M.Rama Krishna and G.Srinivasa Rao, with over decade-long experience, in-depth understanding of industry dynamics, and established long standing relationships with various local suppliers and clients across the value chain continue to support the business. The day-to-day operations of company are managed by experienced management team.

Proximity to Raw Material Growing Area

The manufacturing facility is located in Vikarabad region (Telangana), which is one of the major cotton producing states. Telangana is the third largest producer of cotton in the country. Major raw material being cotton, this provides easy access and logistical efficiency.

Improvement in revenue

The company witnessed an improvement in operation, with increase of over 20% YOY basis from Rs.90.72 crore as on March 31, 2022 to Rs 108.95 crore as on March 31, 2023 largely led by an increase in number of orders received and executed, primarily on account of increase in volume of product sold on account to increase in demand for the product in the textile sector. Higher cotton prices further aided the growth in business during the year.

Key Rating Weaknesses:

Exposure to agro climatic risks and government regulations

Cotton being an agro-commodity is susceptible to agro-climatic risks. The profit margins are highly susceptible to changes in the prices of cotton. The government through the Minimum Support Price (MSP) fixes the price of cotton. However, the purchase price depends on the



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prevailing demand-supply situation, which restricts bargaining power with suppliers as well. Any adverse movement of cotton prices further impacts profitability. Additionally, demand for yarn largely is driven by international demand supply dynamics, resulting in volatile margins.

Intense competition prevalent in the cotton industry and availability of other substitutes

The company is exposed to intense competition prevalent in the highly fragmented cotton ginning industry and faces stiff competition from both organised and unorganised players. Also, the industry faces risk from its substitutes such as polyester and manmade fibre. For the competitive landscape, the company faces stiff competition in the domestic market. Further, the margins of the company are under continuous threat due to seasonal raw material availability.

Moderate capital structure with comfortable debt protection

The tangible net worth stood at Rs.5.15 crore as on March 31, 2023 against Rs.4.74 crore as on March 31, 2022 led by accretion of profits to reserves. Overall gearing ratio of the company continued to remain high at 6.07 times as on March 31, 2023 against 4.51 times as on March 31, 2022 led by increase in total debt. Interest coverage ratio stood moderate at 2.12 times as of FY23 and 2.26 times for FY22. Total Debt / GCA stood at 22 years in FY23 as against 15 years as of FY22 led by increase in total debt.

Analytical Approach: Standalone

Applicable Criteria:

[Policy on Default Recognition](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria on Rating Outlook](#)

Liquidity - Adequate

The liquidity is considered to be adequate given the average bank limit utilisation for the working capital facilities remained moderate around 62% during the last twelve months ended as on February 29, 2024. Further, the current ratio stood moderate at 1.44 as on March 31,



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2023. ACMPL has projected GCA of Rs.1.09 crore in FY24 and Rs.1.20 crore in FY25 against repayment obligations of Rs. 0.82 crore and Rs. 0.89 each year respectively.



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About the Company

M/s Ayyappa Cotton Mills Private limited is incorporated as a Private Limited Company on June 27, 2020 to carry on the business of Cotton Ginning. It is promoted by S.Venkateswar Reddy , M.Rama Krishna and G.Srinivasa Rao who have good experience in manufacturing and trading cotton business.

The company has set up the cotton ginning mill with 48 ginning machines with full automation and one automatic hydraulic baling press (TM unit) at a project cost of Rs.14.50 crores at S.No. 139, Yennampally Village, Vikarabad Mandal, Telangana – 508252.

Financials: Standalone

(Rs. crore)

For the year ended/ As On	31-03-2021	31-03-2022	31-03-2023
	Audited	Audited	Audited
Total Operating Income	14.16	90.72	108.95
EBITDA	1.12	2.91	3.15
PAT	0.07	0.24	0.41
Total Debt	15.81	21.39	31.26
Adjusted Tangible Net-worth	2.13	4.74	5.15
Ratios			
EBITDA Margin (%)	7.89	3.20	2.89
PAT Margin (%)	0.51	0.27	0.38
Overall Gearing Ratio (x)	7.41	4.51	6.07

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable



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Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (December 6,2023)	Date(s) & Rating(s) assigned in 2022-23 (November 25,2022)	Date(s) & Rating(s) assigned in 2021- 22
1.	Fund Based Long Term Bank Facilities	Long Term	26.44	IVR BB- /Stable	IVR B+ /Negative (INC)	IVR BB- /Stable	-
2.	Fund Based Long Term Bank Facilities – Proposed	Long Term	1.76	IVR BB- /Stable	IVR B+ /Negative (INC)	IVR BB- /Stable	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations. Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary. For more information visit www.infomerics.com.

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Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Long Term Fund Based Facilities – Term Loan	-	-	-	4.64	IVR BB- /Stable
Long Term Fund Based Facilities – GECL	-	-	-	3.80	IVR BB- /Stable
Long Term Fund Based Facilities – Cash Credit	-	-	-	18.00	IVR BB- /Stable
Long Term Fund Based Facilities – Term Loan - Proposed	-	-	-	1.76	IVR BB- /Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-Ayyappa-CottonMills-apr24.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it based on complexity and a note thereon is available at www.infomerics.com.