

November 07, 2014

**CARE REVISES THE RATINGS ASSIGNED TO THE BANK FACILITIES OF
 AMBIKA COTTON MILLS LIMITED**

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Remarks
Long-term Bank Facilities	29.83 (reduced from 76.31)	CARE A (Single A)	Revised from CARE A- (Single A Minus)
Long/Short-term Bank Facilities	325.00 (enhanced from 225.00)	CARE A / CARE A1 (Single A / A One)	Revised from CARE A- / CARE A2+ (Single A Minus / A Two Plus)
Total Facilities	354.83		

Rating Rationale

The revision in the ratings of Ambika Cotton Mills Limited (ACML) factors in the continuous improvement in its capital structure predominantly supported by stable cash accruals generated from the business along with the prepayment of portion of term loans and improvement in the operational & financial performance of the company in FY14 (refers to the period April 1 to March 31) & Q1FY15. The ratings are also underpinned by the established track record of operations of the company in the premium compact yarn segment and the company's longstanding relationship with established clientele, vast experience of its promoter and the comfortable financial risk profile characterised by low leverage levels & relatively higher profit margins.

The ratings, however, are constrained by the inherent volatility associated with the price of cotton, exposure to foreign exchange movements and the working capital intensive nature of the operations. The ratings also take into account the moderate revenue concentration risk of the company.

The ability of ACML to sustain healthy profit margins & comfortable capital structure and effectively manage its working capital requirements and foreign exchange exposure will be the key rating sensitivities.

Background

Incorporated as a private limited company in 1988, ACML started spinning operations in January 1990, and was subsequently converted into a public limited company in September 1994. Having commenced operations with an initial capacity of 6,048 spindles, ACML added capacity over the years and its manufacturing capacity stood at 109,872 spindles as on March 31, 2014, spread across four manufacturing units located at Kanniyapuram village, Dindigul district, Tamil Nadu. Of the available capacity, nearly 92% of the spindelage is towards the manufacture of compact yarn.

ACML posted a PAT of Rs.48 crore on a total operating income of Rs.500 crore in FY14 as against a PAT of Rs.31 crore on a total operating income of Rs.401 crore in FY13. As per the provisional results for Q1FY15, ACML has registered a PAT of Rs.13 crore on a total operating income of Rs.121 crore.

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¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

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