Borana Weaves Private Limited (Revised)

July 01, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	12.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	8.00	CARE BB-; Stable / CARE A4 (Double B Minus; Outlook: Stable/ A Four)	Assigned
Total Bank Facilities	20.00 (₹ Twenty Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BWPL are constrained on account of its short track record of operations, leveraged capital structure project, weak debt coverage indicators and project risk associated with its planned expansion project. The ratings are also constrained by its presence in a highly fragmented and cyclical textile industry and susceptibility of its profitability to raw material prices.

The ratings are however, underpinned by its experienced promoters, location advantage of being present in Surat market and benefits derived from company being a part of group having long track record in textile industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Completion of capex in time and cost parameters and benefits thereon resulting in increase in scale of operation with TOI of more than Rs.100 crore.
- Sustained PBILDT margin beyond 10% on sustained basis.
- Improvement in capital structure with overall gearing below 3 times.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Delay in project and cost overrun.
- Decline in TOI below Rs.40 crore and PBILDT margin below 7% on sustained basis.
- Any large debt funded capex other than envisaged.

Detailed description of the key rating drivers

Key Rating Weaknesses

Short track record of operation coupled with modest scale of operations

BWPL has concluded its greenfield project of setting up texturing unit and weaving unit with 144 water jet looms, 6 texturizing and 2 warping machines. Its operation started from July 2021 while it started generating income from grey fabric from Q3FY22 onwards reflecting its short track record. Company sells its product to the local market in Surat. More than 80% of the grey fabric manufactured by the company uses 80 denier polyester yarn. The manufactured grey fabric has multipurpose use in garments and tent-making.

For the nine-months of operations in FY22 the company has achieved a total operating income of Rs. 42.28 crore with moderate profitability marked by PBDILT margin of 11%. The scale of operations remained modest while it has small networth base.

Project risk associated with planned capex

The company also aims to undertake expansion in FY23 by establishing another unit with 200 water-jet machines, 2 texturizing machines, and 2 warping machines for Rs 16.57 crore to be funded by a term loan of Rs.12 crore and balance from promoters' funds. There is project risk associated with this project in terms of timely completion and saleability risk associated with expanded capacity.

Leveraged capital structure and weak debt coverage indicators

Capital structure of the company remained highly leveraged marked by overall gearing of 20.65x and TOL/TNW of 22.52x as on March 31,2022 owing to recently concluded capex. The company has availed term loans to purchase the machineries for its

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

manufacturing activity during FY22 and major part promoters' contribution is in form of unsecured loan which would be replaced by equity in FY23. The tangible net worth of the company stood small at Rs1.32 crore against the total debt of Rs27.31 crore as on March 31,2022.
The debt coverage indicators of the company stand weak with total debt to GCA at 8.45x as on March 31, 2022. Furthermore, interest coverage ratio stood at 3.53x as on FY22.

Presence in competitive and fragmented industry
Company operates in a highly competitive and fragmented textile industry. The company witnesses intense competition from both organized and unorganized players domestically. This fragmented and highly competitive industry results into price competition thereby posing a threat to the profit margins of the companies operating in the industry.

Susceptibility of profit margins due to volatile raw material prices
The primary raw materials used by BWPL to manufacture grey fabrics are Partially Oriented Yarn (POY) and Polyester Filament Yarn (PFY) which is the derivative of the crude oil and hence the profit margins of BWPL are susceptible to volatility in the prices of these raw materials. Also, the raw material cost forms ~80-85% of the cost structure. The major supplier of the company is Reliance Industries Limited, Garden Silk Mills and others with whom its companies like BWPL has limited bargaining power. The fragmented nature of the business will limit the ability of the company to pass on changes in raw material prices exposing its profitability to volatile raw material prices.

Key Rating Strengths
Experienced promoters
BWPL is promoted by Mr. Mangilal Ambalal Borana and Mrs. Dhwani Ankur Borana of Borana family having extensive experience of over three decades in the textile industry (weaving of denim fabrics, textiles, and cotton spinning). Both the directors are graduate and looks after the overall operations of the company. In FY23, Mr. Rajkumar Borana and Mr. Aknur Borana, sons of Mr. Mangilal Ambalal Borana will join BWPL and would be actively involved in the operations of the company.

Benefits derived from company being a part of group having long standing track record
BWPL is a part of Surat based Borana group having over three decades of track record in textile industry though various group entities in cotton as well as man-made fabric segment. The key company in the group includes R & B Denims Ltd and R B Industries (Weaving of Denim fabric), Ricon Industries (Cotton Spinning), Borana Industries LLP and Borana Filaments Private Limited (Weaving - Manmade fabrics). BWPL derives benefits in terms of established customer and supplier based. Group had set up different units to avail various tax benefits over the years.

Location advantage of being present in Surat market
The manufacturing facility of BWPL is located at Hojiwala Industrial Estate, Surat and Surat is known as a textile city of Gujarat and Silk City of India. Also, it is the largest producer of man-made fibre and filament fabric with around 40% share in the country. Hence, BWPL's presence in the textile hub has benefitted it in terms of easy availability of raw materials and labour.

Liquidity: Stretched
The liquidity position remained stretched with modest cash accruals against debt repayment and obligations towards planned capex, moderate liquidity ratios and moderate utilization of working capital limits. It is expected to generate gross cash accruals of Rs.5 to 7 crore against repayment obligations of Rs.4-5 crore in near term. However, cash and bank balance remained low at Rs.0.14 crore for FY22. The current ratio and quick ratio stood at 1.23x and 0.90x respectively as on March 31, 2022. As per the inventory policy BWPL maintains inventory of 15 days.

Analytical approach: Standalone

Applicable Criteria
CARE's Policy on Default Recognition
Criteria on assigning outlook and credit watch to Credit Ratings
Short Term Instruments
Rating Methodology- Manufacturing Companies
Manmade Yarn Manufacturing
Financial ratios (Non-Financial Sector)
Liquidity Analysis of Non-financial sector entities

About the Company

Borana Weaves Private Limited (CIN: U17299GJ2020PTC117745) was incorporated in October 2020 and is a part of Surat based Borana group. The company is promoted by Mr. Mangilal Ambalal Borana and Mrs. Dhwani Ankur Borana of Borana family. The company is engaged in manufacturing of texturized yarn and polyester grey fabric and concluded its greenfield capex in July 2021 at its facility in Surat, Gujarat. The company has 144 water jet looms, 6 texturizing and 2 warping machines translating into weaving capacity of 360 lac metre per annum, and texturizing capacity of 7200 MT as on March 31, 2022. The company plans undertaken another expansion project and add 200 water-jet looming machines, 2 texturizing machines, and 2 warping machines in FY23 with project cost of Rs.16.57 crore.

Brief Financials (Rs. crore)	March 31, 2022 (UA)
Total operating income	42.28
PBILDT	4.86
PAT	1.81
Overall gearing (times)	20.65
Interest coverage (times)	3.53

UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-LT/ST		-	-	-	8.00	CARE BB-; Stable / CARE A4
Fund-based - LT-Term Loan		-	-	-*	12.00	CARE BB-; Stable

*Proposed term loan

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-LT/ST	LT/ST*	8.00	CARE BB-; Stable / CARE A4	-	-	-	-
2	Fund-based - LT-Term Loan	LT	12.00	CARE BB-; Stable	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Available

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based-LT/ST	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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