WTL Garments Private Limited (Revised)

December 02, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	35.17 (Reduced from 39.00)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**35.17** **(₹ Thirty-Five Crore and Seventeen Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities WTL Garments Private Limited (WTL) remained constrained by the risk associated with forex fluctuation, weak financial profile, stretched liquidity profile, customer concentration risk and susceptibility of profitability margins by change in raw material pricing. The rating further remains constrained by the competitive, fragmented and cyclical nature of the industry.

However, the rating derives strength from the experienced promoters, semi-integrated nature of operations situated in a favourable location.

Rating sensitivities

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

- Profitable scale up of operations with PBILDT margins improving to above ~7%
- Improvement in the overall solvency position with overall gearing ratio of below 2.5x

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

- Significant decline in income to below PBILDT margins below 3%
- Deterioration in the solvency position with an overall gearing ratio of above 4.30x owing to increased working capital dependence

Detailed description of the key rating drivers

Key rating weaknesses

Weak Financial Profile: The income from operations of WGPL has decreased from 111.52 crores to 107.87 crores in FY22. Further the company has done sales of 60.95 crores in 6MFY23. The profitability margins of the company have remained low with PBILDT margins decreasing from 4.07% in FY21 to 3.32% in FY22 and PAT margins decreasing from 0.81% in FY21 to 0.22% in FY22. The GCA of WGPL has also decreased from 1.60 crores in FY21 to 1.33 crores in FY22. The deterioration in the profitability is on account of increased raw material cost, sales expenses and employee cost. The Interest coverage ratio of WGPL is 1.67x (PY- 1.48x). The DSCR for FY23, 24 and FY25 has remained close to unity on account of lower profitability margins and high debt repayment.

Customer Concentration Risk: WGPL has been engaged in the garments industry for over a decade now. Further, the Managing Director has an experience of about three decades in the industry. This has enabled established relationships with the clients as well as suppliers. The company caters primarily to export clients based in UAE, USA, Brazil etc. The biggest client is Apex General Trading LLC, UAE which accounts to approximately 36% of the overall income in FY22 (PY-32%). The top 5 customers account for 71% of their total operating income in FY22 (PY-79%). Domestically, the company mainly caters to reputed clients like Aditya Birla Fashion and Retail Limited, Monte Carlo Fashions Limited etc. which have established domestic brands like Allen Solly, Van Heusen, Monte Carlo etc.

Susceptibility to raw material price volatility and foreign exchange fluctuation risk: The primary raw material for the company is cotton yarn and fibers. Being an agricultural product, its demand supply situation depends on various natural

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

conditions and its price is highly volatile depending on the demand-supply situation in the global markets. Further, the prices of the other raw materials viz. polyester yarn and fibers also remain dependent on crude oil which has also remained volatile in the past. In a competitive scenario, the company has limited ability to pass on fluctuations to the customers. Furthermore, in FY22, the company received around 80% of its income from exports while the company did not have any imports. The company doesn't enter into derivative contacts to hedges its exposure. Hence, the company is exposed to foreign exchange fluctuation and any major appreciation of INR may impact the profitability adversely.

Competitive, fragmented and cyclical nature of the industry: The Indian textile industry, which is the second largest employer after agriculture and accounts for a significant portion of the GDP, is inherently cyclical in nature. Any adverse changes in the global economic outlook as well as demand-supply scenario in the domestic market directly impacts demand of the textile industry. Textile industry as a whole remains vulnerable to various factors such as fluctuations in prices of crude oil, mobilization of adequate workforce and changes in government policies for overall development of the textile industry. Any significant changes in such factors will have a direct impact on the business operations of the firm. WGPL operates in a highly fragmented textile manufacturing industry where in the presence of large number of entities in the unorganized sector and established players in the organized sector limits the bargaining power with customers. Furthermore, the company is also exposed to competitive pressures from domestic players as well as from players situated in China and Bangladesh.

Key rating strengths

Experienced Promoters: WGPL was initially incorporated in 2010 as a partnership firm by Mr. Rakesh Kumar Garg and his father Mr. Luddar Mal Garg. The firm was later on converted in a Private Limited Company with the partners Mr. Rakesh Garg and his wife Mrs. Manju Garg converting their capital in the firm to Equity share capital in the company and becoming the directors. Both the directors hold an industry experience of around 1.5 decades. Mr. Rakesh Garg is actively involved in the management of the company. Further, the company has professionally qualified persons for various functions viz. merchandising, production, operations, knitting and fabrics, exports etc.

Favorable location and semi-integrated nature of operations: WGPL operates in Ludhiana, which is a well-established hub of textiles. The company benefits from the location advantage in terms of easy accessibility to a large customer base located in Ludhiana. Additionally, a large number of spinners and other textile players operate in the region leading to easy and ample availability of raw materials and processing activities like dyeing etc. WGPL's manufacturing unit is semi-integrated with facilities for knitting, cutting, stitching and finishing available in-house. The company also procures dyed fabric from time to time in case of any temporary capacity mismatch. However, the proportion of this remains low.

Improvement in the capital structure: The capital structure of the company is moderate with long term debt to equity of 0.72x and overall gearing of 2.97x against 1.45x and 3.75x in FY21. This improvement is on account of repayment of loans worth 9.5 crores from the amount received as a collection from debtors in FY22. In FY21, the company has debtors of 88 crores and as on March 31, 2022 the company has debtors of 43 crores. The company had such high debtors because of ECGC export orders where the payment was stopped and the matter was in subjudice as the company has filed ECGC claims for this amount.

Liquidity: Stretched

The company has free cash of 21.62 lakhs and FDRs of 84.61 lakhs in FY22 against 30 lakhs of free cash and FDR of 1.50 crores in FY21. The current ratio of the company in FY22 stands at 1.24x against 1.09x in FY21. The GCA of the company has decreased to 1.33 crores on account of lower PAT in FY22. The repayments in FY23 are of 2 crores. The operating cycle of the company has increased from 145 days to 171 days in FY22 on account of increased inventory days from 30 days in FY21 to 74 days in FY22. The collection period remains high at 230 days due to long due debtors. The company has debtors of Rs.88cr as on March 31, 2021, which has improved to Rs.43cr as on March 31, 2022. The recovery from debtors is being used to repay unsecured loan and some of the creditors. However, despite of the recovery of major portion of the debtors, the collection period remained higher, thereby putting pressure on the liquidity position of the company and also leading to almost full utilization of working capital limits.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Cotton Textile
Manufacturing Companies

About the company

Worldwide Trade links was incorporated as a partnership firm in 2010. The firm was later on converted in a Private Limited Company with the partners Mr. Rakesh Garg and his wife Mrs. Manju Garg converting their capital in the firm to Equity share capital in the company and becoming the directors of WTL Garments Private Limited. The company is engaged in the manufacturing of knitted readymade garments at its single manufacturing facility in Ludhiana, Punjab. The company is operating with an installed capacity of 15000 pieces per day as on March 31, 2020. WT sells to reputed domestic players and other Ludhiana based players. The company also exports its products and derived around 80% of the total income in FY22 from export sales. The company deals with traders and dealers in UAE, USA, Europe etc. who further sell to various garment brands. WT has been awarded the status of 'Star Export House' by the Directorate General of Foreign Trade (DGFT). The product profile of the company includes cotton-polyester blended gents T-Shirts, gents shirts, gents lowers, boys T-Shirts, ladies T-Shirts, babysuits etc. The company has Worldwide Industries Limited as its group concern which is currently defunct.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	6MFY23 (P)
Total operating income	111.52	107.87	60.95
PBILDT	4.54	3.58	2.34
PAT	0.91	0.23	0.34
Overall gearing (times)	3.75	2.97	NA
Interest coverage (times)	1.48	1.67	1.64

A: Audited, P: Provisional, NA: Not available

Status of non-cooperation with previous CRA: India Ratings B+ ; / A4 as on July 28, 2022

Any other information: NA

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	May-2022	5.17	CARE B+; Stable
Fund-based - LT-Working Capital Limits		-	-	-	30.00	CARE B+; Stable

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-Term Loan	LT	5.17	CARE B+; Stable	-	1)CARE B+; Stable (05-Oct-21)	1)CARE B+; Stable (12-Nov-20)	-
2	Fund-based - LT-Working Capital Limits	LT	30.00	CARE B+; Stable	-	1)CARE B+; Stable (05-Oct-21)	1)CARE B+; Stable (12-Nov-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

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-Working Capital Limits	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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