

H S Weavers Private Limited (Revised)

January 03, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	6.89 (Reduced from 8.45)	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Total Facilities	6.89 (Rs. Six Crore and Eighty- Nine Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of HS Weavers Private Limited (HWPL) continues to remain constrained on account of moderate scale of operations and profit margins, moderate capital structure and debt coverage indicators during FY21 (refers to the period April 1 to March 31). Further, the rating continues to remain constrained due to susceptibility of profit margins to volatility associated with raw material prices along with presence in highly fragmented textile industry with limited presence in textile value chain. However, the rating continues to derive strength from experienced promoters in textile industry along with locational advantage by way of presence in textile hub of Surat.

Rating Sensitivities

Positive factors

- Sustained improvement in scale of operations by 40% along with similar improvement in gross cash accruals
- Improvement in capital structure with overall gearing below 1.50 times on sustained basis

Negative Factors

- Decline in scale of operations by 30% on sustained basis
- Deterioration in capital structure with overall gearing above 2.75 times due to increase in working capital intensity or any major debt funded capex

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations and profit margins

The scale of operations of HWPL declined by 17% however continued to remain moderate as marked by total operating income (TOI) of Rs.34.94 crore in FY21 (Prov.) as compared to Rs.42.08 crore in FY20. Decline is on account of subdued demand of product from customers during FY21.

During FY21, overall profitability improved marked by PBILDT margin improved by 368 bps and stood at 10.17% during FY21 (Prov.) as against 6.49% in FY20. Improvement in PBILDT margin is mainly on account of decrease in power and fuel cost during FY21. Further, PAT margin also improved by 354 bps and remained at 4.31% during FY21 as against 0.76% during FY20 mainly on account of improved operating profitability. Furthermore, Gross cash accruals (GCA) also improved and stood at Rs. 2.60 crore in FY21 as against Rs.1.78 crore in FY20.

Moderate capital structure and debt coverage indicators

The capital structure of HWPL continued to remain moderately leveraged marked by an overall gearing ratio at 2.45 times as on March 31, 2021 (Prov.) as against 2.18 times as on March 31, 2020. Deterioration is on account of increase in total debt level led by increase in unsecured loans from directors and relatives during FY21.

The debt coverage indicators of HWPL continue to remain moderate marked by total debt to GCA (TDGCA) of 6.72 years during FY21 as against 6.89 years during FY20. Interest coverage ratio improved but remained at 4.59 times during FY21 as against 3.60 times during FY20 due to improved PBILDT during FY21.

Susceptibility of profit margins to volatility associated with raw material prices

Major raw material for HWPL is cotton yarn whose prices are directly linked to cotton prices which are highly volatile in nature. Raw cotton prices depend upon various factors like monsoon condition, area under production, yield for the year, international demand supply scenario, export policy decided by government and inventory carried forward of the last year.

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

Presence in highly fragmented textile industry with limited presence in textile value chain

The fabric manufacturing industry segment is highly fragmented marked by presence of large number of independent and small scale unorganized players leading to high competition among industry players. The competition is intensified by the low entry barriers in terms of limited product differentiation, capital and technological requirements. Furthermore, due to the fragmented nature of the fabric industry, bargaining power of fabric manufacturers with raw material suppliers and customers are restricted which is also reflected in the low profit margins of companies operating in yarn and weaving segment, which forms only a modest portion of the textile value chain.

Key Rating Strengths

Experienced Promoters

HWPL is promoted by Mr. Hariprakash Kanodia, Mr. Arvind Kanodia, Mr. Abhishek Kanodia and Mr. Shreshth Patodia. Mr Hariprakash Kanodia has more than three decades of experience in the textile industry through his association with various ventures like Kanodia Fabrics Pvt. Ltd. and Kanodia Clothiers Pvt. Ltd. Mr. Shreshth Patodia and Mr. Vaibhav Kanodia have more than a decade of experience in the textile industry through their association with various ventures like Vivid Digitex Private Limited and MG Weaving Mills Private Limited.

Location advantage by way of presence in textile hub of Surat

HWPL's plant is located in Surat (Gujarat) which is considered to be one of the major textile hubs in India. Surat also occupies a major position in the production of manmade fabrics. The presence in textile hub provides additional advantage of easy market availability for its product to HWPL. Also, the Government of Gujarat's 'Farm-Factory-Fabric-Fashion-Foreign' Textile Policy, which is aimed at strengthening the entire textile value chain, is expected to provide a further boost to the textile companies in this region, while Surat is developing as a Textile-mega power loom cluster with government aid and support from the Ministry of Textiles.

Liquidity: Stretched

The liquidity position of HWPL is stretched marked by modest cash/bank balance and moderate working capital utilization. Cash/bank balance remained modest at Rs.0.01 crore as on March 31, 2021 as against Rs.0.10 crore as on March 31, 2020. Average working capital utilization remained high at ~75% during past 12 months period ended November, 2021. Working capital cycle of HWPL deteriorated and remained elongated at 117 days during FY21 as against 63 days during FY20 on account of increase in inventory and collection period. Cash flow from operations remains negative at Rs.1.98 crore during FY21 as against Rs.1.70 crore during FY20. As against GCA of Rs.2.60 crore in FY21, there are scheduled repayments of long-term debt obligations to the tune of Rs.0.72 crore during FY22. The company has not availed moratorium benefit in line with RBI announcement on wake of COVID pandemic.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Liquidity Analysis of Non-Financial Sector entities](#)

[Rating Methodology - Cotton Textile Manufacturing](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Surat-based (Gujarat) HS Weavers Private Limited (HWPL), incorporated in July 2014 was promoted mainly by Mr. Hariprakash Kanodia, Mr. Arvind Kanodia, Mr. Abhishek Kanodia and Mr. Shreshth Patodia. HWPL is engaged in the manufacturing of greige fabrics manufactured from cotton and polyester yarn. HWPL operates from its sole manufacturing facilities located at Surat (Gujarat) with an installed capacity of manufacturing 197 lakh meters of greige fabric per annum and 6 tons per day of texturizing yarn as on March 31, 2021. The key raw material i.e. cotton and polyester yarn is procured entirely from domestic market (mainly Surat) and the revenues are also entirely earned from the domestic market (mainly from Gujarat, Rajasthan and Maharashtra, Punjab & Haryana).

Brief Financials (Rs. crore)	FY20 (A)	FY21 (Prov.)	8MFY22 (Prov.)
Total operating income	42.08	34.94	40.83
PBILDT	2.73	3.55	NA
PAT	0.32	1.50	
Overall gearing (times)	2.18	2.45	
Interest coverage (times)	3.60	4.59	

*A: Audited; Prov.: Provisional, NA: Not available

Status of non-cooperation with previous CRA: ICRA has put ratings assigned to the bank facilities of HWPL in to 'Non Cooperation' vide press release dated May 26, 2021 on account of non-cooperation by HWPL with ICRA's efforts to undertake a review of the ratings outstanding

Any other information: None

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March, 2026	3.39	CARE BB; Stable
Fund-based - LT-Cash Credit		-	-	-	3.50	CARE BB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	3.39	CARE BB; Stable	-	1)CARE BB; Stable (30-Nov-20)	1)CARE BB; Stable (09-Dec-19)	1)CARE BB; Stable (19-Nov-18)
2	Fund-based - LT-Cash Credit	LT	3.50	CARE BB; Stable	-	1)CARE BB; Stable (30-Nov-20)	1)CARE BB; Stable (09-Dec-19)	1)CARE BB; Stable (19-Nov-18)

Annexure 3: Covenants of rated instrument/facility: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company: Not applicable

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.co.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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