

WTL Garments Private Limited

October 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	39.00 (Enhanced from 33.00)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	39.00 (Rs. Thirty-Nine Crore 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) is constrained by the weak financial risk profile, customer concentration risk and vulnerability of profitability margins to volatility in the raw material prices, tight liquidity position & forex fluctuations. The rating further remains constrained by the competitive, fragmented and cyclical nature of the industry.

The ratings, however, derive strength from the experienced promoters and semi-integrated nature of operations at a favorable location.

Rating Sensitivities

Positive:

- Profitable scale up of operations with PBILDT margins improving to above ~7%.
- Improvement in the solvency position with an overall gearing ratio of below 2.50x

Negative Factor:

- Significant decline in scale of operations or PBILDT margins falling 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 scale of operations of the company remain moderate as marked by total operating income of the company in the FY21 (refers to the period April 01 to March 31) is Rs.110.86 Crore.(PY: Rs.88.82 crore). The increase was attributable due to increase in export income. The PBILDT margins of the Company, however, declined from 5.45% in FY20 as against 3.79% in FY21(Prov.) due to increase in direct expenses. However, PAT margins improved to 0.82% from 0.80% on account of lower interest costs in FY21.The capital structure of the company remained leveraged with long term debt to equity and overall gearing ratios of 1.44x and 3.74x respectively, as on March 31, 2021 (Prov.). The total debt to GCA ratio also remained weak at 30.44x as on March 31, 2021 (Prov.) while the interest coverage ratio stood at a moderate level of 1.62x in FY21 (Prov.).

Further in FY22 company has achieved a total operating income of Rs.36.99 crore till September 06, 2021.

Customer concentration risk:

The company's revenue stream is associated with a customer concentration risk with top-five customers contributing ~79% of the total income in FY21 (Prov.) and the top customer alone contributing ~32% of the total income during the year. Any change in the financial performance or procurement policies of the customers will directly impact the performance of WTL.

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 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 FY21, the company received ~70% of its income from exports while the company did not have any imports. The company occasionally enters into derivative contracts and hedges its exposure to some extent. However, since the exposure is not completely hedged, the profitability margins remain susceptible to forex fluctuations.

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

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 company. 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:**

WTL 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:

WTL 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 and ample availability of raw materials. WTL's manufacturing unit is semi-integrated with facilities for knitting, cutting, stitching and finishing available in-house.

Liquidity analysis: Stretched

The current and quick ratio of the company stood moderate at 1.76x and 1.47x as on March 31, 2021(Prov.) (PY: 1.33x and 1.15x). The company had free cash & bank balance of Rs.0.33 cr. as on March 31, 2021 (Prov.). The operating cycle of the company remained elongated at ~139 days as on March 31, 2021 (Provisional). WGPL has repayment obligation of Rs.3.37 Cr. in FY22 to be met through its internal accruals and fund infusion by the promoters. The sanctioned working capital limits remained almost fully utilised on an average in the last twelve months ended August-2021. Further, any deterioration in the liquidity position, especially in light of the Covid-19 pandemic, will remain a key rating sensitivity.

Analytical Approach: Standalone**Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Rating Methodology for Cotton Textile Manufacturing](#)

[Rating Methodology - Manufacturing Companies](#)

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

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

About the Company

Worldwide Tradelinks 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 ~70% of the total income in FY21 (Prov.) 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.

(Rs. In crore)

Brief Financials (Rs. crore)	FY19 (A)	31-03-2020 (A)	31-03-2021 (P)
Total operating income	112.34	88.82	110.86
PBILDT	4.32	4.84	4.20
PAT	0.70	0.71	0.91
Overall gearing (times)	3.89	3.44	3.74
Interest coverage (times)	1.33	1.31	1.62

A: Audited P: Provisional

Status of non-cooperation with previous CRA: India Ratings has conducted the review on the best available information and classified WTL as not cooperating vide its press release dated May 12, 2020.

Any other information: Not applicable

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		-	-	May-2022	9.00	CARE B+; Stable
Fund-based - LT-Working Capital Limits		-	-	-	30.00	CARE B+; 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	9.00	CARE B+; Stable	-	1)CARE B+; Stable (12-Nov-20)	-	-
2	Fund-based - LT-Working Capital Limits	LT	30.00	CARE B+; Stable	-	1)CARE B+; Stable (12-Nov-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple

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.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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