

Balar Synthetics Private Limited

January 17, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	1.00	CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	25.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (Double B Plus ; Outlook: Stable/ A Four Plus ISSUER NOT COOPERATING*)	Revised from CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable / A Three) and moved to ISSUER NOT COOPERATING category
Total Bank Facilities	26.00 (Rs. Twenty-Six Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Balar Synthetics Private Limited (BSPL) to monitor the rating(s) vide e-mail communications dated Nov 18, 2021, Dec 08, 2021, Dec 15, 2021, Jan 01, 2022, Jan 6, 2022 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The ratings on BSPL's bank facilities will now be denoted as CARE BB+; Stable; ISSUER NOT COOPERATING/ CARE A4+ ISSUER NOT COOPERATING.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings assigned to the bank facilities of BSPL have been revised on account of non-availability of requisite information to carry out review, including No default statements for three consecutive months ended December 31, 2021.

The rating assigned to the bank facilities of Balar Synthetics Private Limited (BSPL) continues to remain constrained on account of its moderately leveraged capital structure, susceptibility of the company's profitability to fluctuations in the raw material prices and its presence in the highly competitive and fragmented textile industry. The ratings, however, continue to derive strength from extensive experience of promoters with established track record of operations in the textile industry and location advantage due to its presence in the textile cluster of Bhilwara (Rajasthan).

The ratings further, derive comfort from its financial profile marked by moderate scale of operations as well as moderate profitability margins and debt coverage indicators.

Detailed description of the key rating drivers

At the time of last rating on October 06, 2021 the following were the rating strengths and weaknesses.

Key Rating Weaknesses

Moderately leveraged capital structure albeit moderate debt coverage indicators

The capital structure of the BSPL stood moderate marked by overall gearing at 1.60x as on March 31, 2021. The debt coverage indicators marked by total debt to GCA remained moderate at 7.05x as on March 31, 2021. Further Interest coverage also stood moderate at 3.64 times as on March 31, 2021 and improved from 2.99 times in March 2020 due to reduction in interest expenses.

Susceptibility of operating margins to volatility in raw material prices in the highly fragmented and competitive industry

Raw material cost accounts for 60-70% of the company's total operating income. Its key raw material i.e. polyester viscose yarn (PV), the price of which is volatile, as polyester is a crude oil derivative and its price is affected by fluctuations in crude oil prices as well as affected by other factors such as government policies. The price of fabric is related to the price of PV, although BSPL has limited power to fully pass on the increase in the raw material cost to its customers due to its presence in a highly fragmented and competitive fabric industry thereby affecting operating margin. Smaller companies are more vulnerable to intense competition and have limited pricing flexibility, which constrains their profitability as compared to larger companies

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

who have better efficiencies and pricing power considering their scale of operations. Further, 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 cotton, mobilization of adequate workforce and changes in government policies for overall development of the textile industry. Any significant changes in such factors will have direct impact on the business operations of the company.

Key Rating Strengths

Extensive experience of promoters in textile industry with established track record of operations

Mr Suresh Kumar Jain, one of the key promoters has extensive experience of around three decades in the industry and looks after overall management and is also involved in strategic decision making for the company. He is ably supported by Mr. Sunil Kumar Jain, having experience of more than two decades and looks after the marketing function of the company, Mr. Hari Singh Solanki, who looks after the production function of the company and Ms. Meena Devi Jain who looks after the accounts function. Moreover, directors are supported by a team of managerial personnel and technical team having relevant experience in their respective fields. Mr Ajit Kothari is the factory manager and B.Tech by qualification with more than two decades of experience in the industry, while Mr Manoj Garg is M.Com by qualification and looks after the finance function and has an experience of more than two decades. The operations are even supported by Mr. Vipul Kumar Jain and Mr. Girish Balar, both are MBA and have 3-5 years of experience in this Industry.

BSPL was incorporated in the year 1996 and hence, has a track record of more than two decades. Due to longstanding presence in the textile industry and Bhilwara textile cluster, the company has established good relations with its customers and suppliers which have helped the company to improve its position in the competitive market with continuous addition in installed capacity over the years. In FY21, top 5 customers constituted 31.75% of Total Operating Income (26.68% in FY20).

Presence in textile cluster of Bhilwara with easy access of raw material and labour

The main raw material of the company is synthetic yarn. The manufacturing facility of the company is located at Bhilwara (Rajasthan) which is one of the largest textile clusters in India and majority of these industries are engaged in the manufacturing of synthetic yarn. BSPL's presence in the textile manufacturing region results in benefits derived from low transportation cost both on transportation and storage, easy availability of raw materials as well as skilled/unskilled labour and procurement of raw materials (yarn) at effective prices.

Moderate scale of operations

The scale of operations as indicated by TOI stood moderate at Rs.152.24 cr. in FY21, at same level as FY20. The operations were closed for almost two months during Q1FY21 and the demand in textiles was low. However, company commenced operations from May 2020 and demand for grey fabrics largely reached to pre-covid levels and subsequently capacity utilization has increased.

Moderate profitability

The profitability of the company has increasing trend in past years, but in FY21 it remains moderate due to lockdown imposed in initial months of FY21 which impacted performance of Q1FY21. PBILDT Margins remains moderate at 8.48%. PAT margins reduced to 0.82% in FY21 compared to 2.31% in FY20 due to higher depreciation cost owing to recently concluded capex. However, Cash Accruals of the company have remained adequate, Rs 9.27 crore as on March 2021 compared to Rs 8.64 crore in March 2020.

Stable industry outlook albeit highly fragmented and competitive industry

Demand in the textile industry was impacted due to covid-19 pandemic and lockdown. However, with gradual resumption in economic activities and lifting of lockdowns, demand witnessed recovery mainly from H2FY21 onwards and is expected to remain stable with good demand both from domestic and export markets.

Furthermore, the textile and apparel industry are one of the earliest and largest industries in India and contributed 2% of the overall GDP and 11% of total manufacturing gross value added in FY20. It is the biggest employer after agriculture and provides direct employment to 4.5 crore people and another 6 crores in allied sectors. Henceforth it has always remained among the top priority list of the Government, which has extended various support scheme such as Production-linked incentive (PLI) and Rebate under the Remission of Duties and Taxes on Exported Products (RoDTEP).

However, the textile industry suffers from large number of unorganized players leading to high competition in the industry. The smaller weaving and processing units are more vulnerable to intense competition, which constrains their profitability as compared to larger integrated textile companies who have better operating efficiencies. Furthermore, textile industry is a cyclical industry and closely follows the macroeconomic business cycles.

Analytical Approach: Standalone

Applicable Criteria:

[Policy on Non co-operation by issuer](#)

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

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

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

[Rating Methodology: Manufacturing Companies](#)

[Short Term Instruments](#)

About the company

Incorporated in 1996, Bhilwara-based BSPL is promoted by Mr Suresh Kumar Jain, Mr. Sunil Kumar Jain, Mr. Hari Singh Solanki and Ms. Meena Jain. BSPL is primarily engaged in the business of manufacturing of synthetic fabric i.e. grey fabric from polyester, polyester viscose (PV) yarn and texturized yarn and outsources the processing work required for the manufacturing of finished fabrics on job work basis to the nearby process house located at Bhilwara. Further, BSPL is also engaged in trading of yarn as well as grey and finished fabrics and apart from this it also undertakes job work activity for other textile players depending upon the opportunity available. The company operates from its two manufacturing facilities located at Bhilwara having an aggregate installed capacity of 289.74 Lakh Meters Per Annum (LMPA) as on March 31, 2021. Over the years BSPL has consistently build up its installed capacity and currently, it has 140 sulzer looms and 120 rapier looms (Automatic Weaving Machines) across its two units. The company sells most of the manufactured grey fabric in the local market of Bhilwara directly as well as through ten agents, whereas it markets its finished fabric under the brand name of "BALAR" through a network of six agents in the local market as well as in the Southern part of India. Further, the company has also started to export its products in the North American markets though on a small scale.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	5MFY22 (Prov.)
Total operating income	152.19	152.24	60.44
PBILDT	13.86	12.91	6.04
PAT	3.52	1.25	NA
Overall gearing (times)	1.64	1.60	NA
Interest coverage (times)	2.99	3.64	NA

A: Audited; Prov.:Provisional; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit		-	-	-	25.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	May 2027	1.00	CARE BB+; Stable; ISSUER NOT COOPERATING*

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/ ST-Cash Credit	LT/ST*	25.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*	1)CARE BBB-; Stable / CARE A3 (06-Oct-21)	1)CARE BBB-; Negative / CARE A3 (05-Oct-20)	1)CARE BBB-; Stable / CARE A3 (03-Oct-19)	-
2	Fund-based - LT-Term Loan	LT	1.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	1)CARE BBB-; Stable (06-Oct-21)	1)CARE BBB-; Negative (05-Oct-20)	1)CARE BBB-; Stable (03-Oct-19)	-

* Long Term / Short Term

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

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-Cash Credit	Simple

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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