Borana Weaves Private Limited

September 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	50.50 (Enhanced from 12.00)	CARE BB+; Stable	Revised from CARE BB-; Stable
Long Term / Short Term Bank Facilities	7.00 (Reduced from 8.00)	CARE BB+; Stable / CARE A4+	Revised from CARE BB-; Stable / CARE A4

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings assigned to bank facilities of Borana Weaves Private Limited (BWPL) take into consideration improvement in overall financial performance marked by growth in scale of operations supported by the increase in capacity with timely conclusion of capex with healthy profitability and improvement in its capital structure.

The ratings continued to remain constrained on account of its short track record of operation, project risk associated with the planned capex, susceptibility of profit margins due to volatile raw material prices, and presence in the competitive and fragmented industry.

The ratings, however, continued to derive strength from the experienced promoters, and benefits derived from company being a part of group having long standing track record, and location advantage of being present in the Surat market.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Completion of capex in time and cost parameters resulting in the growth in the scale of operations
- Improvement in profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of more than 15% on a sustained basis
- Improvement in capital structure with overall gearing below 1.2 times

Negative factors

- Decline in total operating income (TOI) below Rs.120 crore and/or PBILDT margin below 10% on sustained basis
- Deterioration in capital structure with overall gearing above 2 times

Analytical approach: Standalone

Outlook: Stable

The outlook on the long-term rating of BWPL is "Stable" as CARE Ratings Limited (CARE Ratings) expects the entity would continue to benefit from the extensive experience of the promoters in the industry along with location advantage with presence in Surat market.

Detailed description of the key rating drivers:

Key weaknesses

Short track record of operation

BWPL's operation started from July 2021 and FY23 was its first full year of operations reflecting its short track record. Company manufactures grey fabric from polyester yarn after doing sizing/texturizing operations and sells its product to the local market in Surat. The manufactured grey fabric has multipurpose use in garments interlining, dress materials and tent-making. The company has two units in Surat with installed capacity of 816 Lakh metre per annum (424 water-jet looms; 8 texturizing machines, and 4 warping machines).

Project risk associated with planned capex

The company plans to undertake expansion in FY24 by establishing another unit (Unit 3) with 300 water-jet machines, 5 texturizing machines, and 1 sizing machines for Rs 65.00 crore in Surat, which will be funded by a term loan of Rs.37 crore and balance from internal accruals of the company. The Unit-3 land is on lease from promoters and civil construction in underway. Considering the initial stage of project and back-to-back capex there is project risk associated with the project.

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

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 ~60-70% of the cost structure. The major supplier of the company is Reliance Industries Limited, Garden Silk Mills and others with whom 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.

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.

Key strengths

Growing scale of operations with healthy profitability

BWPL has registered a multi-fold increase in its revenue to Rs.135.44 crores in FY23 (FY21: Rs.42.33 crore) on back of commencing of production of its Unit 2 from November 2022 onwards. However, scale of operations is at moderate level. PBILDT margins had increased to 19.35% in FY23 from 12.18% in FY22 on back of optimum utilization of its capacities.

Improvement in capital structure and debt coverage indicators albeit remained at moderate level

Capital structure of the company improved significantly marked by overall gearing of 1.57x in FY23 (PY: 14.84x) and TOL/TNW of 1.97x as on March 31,2022 (PY: 16.05x) owing to accretion of profits to reserves and conversion of USL from promoters to equity in FY23. The tangible net worth of the company stood at Rs.24.77 crore as on March 31, 2023 (PY: Rs.1.84 crore) against the total debt of Rs.38.89 crore as on March 31,2023.

The debt coverage indicators of the company also improved and stood moderate with total debt to GCA at 1.87 times as on March 31, 2023 (PY:7.81 times). Furthermore, interest coverage ratio stood at healthy 12.20 times as on FY23.

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. 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 presence 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: Adequate

The liquidity position of BWPL stands adequate modest cash accruals against debt repayment and obligations towards planned capex, moderate liquidity ratios and low utilization of working capital limits. It is expected to generate gross cash accruals of Rs.25 to 30 crore against repayment obligations of Rs.8-10 crore in near term. CFO of the company improved to Rs.5.11 crore on the back of increased operating profit. However, cash and bank balance remained low at Rs.0.10 crore for FY23. The current ratio stood at 1.47x as on March 31, 2023.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manmade Yarn Manufacturing
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

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, Mr. Rajkumar Borana and Mr. 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 424 water jet looms, 8 texturizing and 4 warping machines translating into weaving capacity of 816 lac metre per annum, and texturizing capacity of 10,000 MT as on March 31, 2023. The company plans to undertake another expansion project for adding 300 water-jet looming machines, 5 texturizing machines, and one sizing machine in FY23 with project cost of Rs.65.00 crore.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (UA)
Total operating income	42.33	135.44
PBILDT	5.16	26.20
PAT	1.83	16.93
Overall gearing (times)	14.84	1.57
Interest coverage (times)	3.75	12.20

A: Audited UA: Unaudited; Note: 'the above results are latest financial results 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: Annexure-4

Lender details: Annexure-5

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-Term Loan		-	-	01-12-2029	50.50	CARE BB+; Stable
Fund-based-LT/ST		-	-	-	7.00	CARE BB+; Stable / CARE A4+

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 2023-2024	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
1	Fund-based-LT/ST	LT/ST*	7.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB-; Stable / CARE A4 (01-Jul-22)	-	-
2	Fund-based - LT-Term Loan	LT	50.50	CARE BB+; Stable	-	1)CARE BB-; Stable (01-Jul-22)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the 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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About us:
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