

## Providence Textiles

March 10, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	15.39	CARE BBB-; Stable	Assigned
Long Term Bank Facilities	45.00	CARE BBB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	44.61 (Enhanced from 5.00)	CARE BBB-; Stable / CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Providence Textiles derive strength from the experienced partners with firm's long track record of operations based at Ludhiana, Punjab being a favourable location for textile players and established relationship with customers and suppliers. The ratings also continue to take comfort from growing scale of operations with improvement in profitability margins and average financial risk profile. These ratings, however, continue to remain constrained by the susceptibility towards volatility in raw material prices, foreign exchange fluctuation and fragmented and competitive nature of textile industry. The ratings also take cognizance the risk associated to the constitution of the entity being a partnership firm.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Sustainable growth in scale of operations as marked by total operating income (TOI) above Rs. 300 crores along with PBILDT (Profit Before Interest, Lease, Depreciation, and Tax) margin above 8.50% and ROCE (Return on Capital Employed) of upward of 20%.
- Improvement in TOL/ TNW (Total Outside Liabilities to Total Net Worth) ratio below 1.5x on a sustained basis.

#### Negative factors

- Decline in scale of operations below Rs. 225 crores and PBILDT margins below 7%.
- Deterioration in TOL/ TNW ratio to above 3x and TD/GCA above 4.5x on a sustained basis.

### Analytical approach: Standalone

#### Outlook: Stable

Stable outlook reflects that the firm is likely to maintain its operational & financial risk profile over the medium term.

### Detailed description of key rating drivers:

#### Key strengths

**Growing scale of operations with improvement in profitability margins:** The firm's operational performance has shown significant improvement over the past five years as marked by the TOI growing at a CAGR of 40.43%. In FY24 (refers to April 01 to March 31), the TOI surged by ~110% compared to FY23. During H1FY25 (refers to April 01 to September 30), the firm recorded sales of Rs. 125.95 crore. With the firm's shift towards worsted woollen yarn, which offers better realizations, margins are expected to improve going forward resulting in improvement in operational performance.

The firm's profitability margins are improving yet remained moderate, with a PBILDT margin of 7.56% and a PAT (Profit After Tax) margin of 3.43% in FY24 with a slight as compared to previous year attributing to the demand and market dynamics for FY23 and FY24.

**Average Financial risk profile:** The firm's capital structure remains moderate as marked by an overall gearing of 2.03x as of March 31, 2024 (PY: 2.04x), due to decrease in working capital borrowings and acceptances. The interest coverage ratio slightly moderated to 3.83x during FY24 (PY: 4.76x) due to higher interest costs for term debt. Nevertheless, the TDGCA (Total Debt to Gross Cash Accruals) improved to 4.43x (PY: 5.54x) due to higher GCA (Gross Cash Accruals) during the year. Going forward, with no major debt funded capital expenditure planned, CARE expects firm to maintain its average financial risk profile over medium term.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

**Favourable location of plant:** The firm operates from its manufacturing facility based in Ludhiana, Punjab, which is amongst the well-established hub of textile industry and provides advantage in terms of easy accessibility to various raw materials viz. fibres for blending and wool from nearby traders for meeting any immediate requirements. Further, the firm also has easy accessibility to small manufactures for job work requirements.

**Geographically diversified presence with established relationship with customers and suppliers although concentration risk:** The firm has a geographic presence both domestically and internationally. Exports accounted for 70-80% of total sales in FY23 and FY24. The exports are expected to rise, as indicated by the data from H1FY25. The firm primarily exports to European countries such as Italy, Ireland, the UK, and Korea. However, the revenue stream of the firm remains concentrated as, the top 10 customers accounted for approximately 58% of total sales in FY24, compared to around 68% in the previous year. For purchases, the firm primarily procures domestically rather than through imports. However, during H1FY25, procurement was mainly in the form of imports.

**Experienced and Resourceful partners:** The partners of the firm are Sanjay Bansal and Mamta Bansal. The operations of the firm are majorly handled by Mr. Sanjay Bansal having a rich experience of around three decades in this sector. The partners are supported by a team of experienced and qualified professionals.

### Key weaknesses

**Constitution of the entity being partnership firm:** The constitution being a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency and firm being dissolved upon the death/retirement of any of the partners. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of partners would be key factors affecting credit decision for lenders. However, the firm also has a succession plan since daughter of Sanjay Bansal and Mamta Bansal, Lavina Bansal has also joined the firm and is looking after production and marketing department.

**Presence in highly fragmented and competitive textile industry:** The textile industry in India is highly fragmented and dominated by a large number of medium and small-scale unorganized players, leading to high competition in the industry. There are a limited number of large-scale players operating in the woollen yarn segment in India. The firm faces competition primarily from small players operating in India as well as foreign players. Further, the firm is exposed to the risk associated with substitution of the relatively expensive wool products with synthetic blends of yarns, which also affects the demand and prices of wool-based products.

**Susceptibility to raw material price volatility and foreign exchange fluctuations:** The operations of the firm remain susceptible to volatility in raw material prices fluctuation and foreign exchange risk as the major raw materials used by the firm are sheep wool and man-made fibre and the total cost of raw material consumed constitutes approximately 70% of cost of sales of the firm for the year ending March 31, 2024. Wool, being an animal derived product, witnesses price fluctuations depending on various natural agro-climatic conditions as well as the global demand-supply situation along with the associated seasonality. The contribution for raw wool constitutes approximately 72% of total raw material for FY24. Other raw materials of the firm include different types of fibres for polyester etc. The price of wool is generally determined on a weekly basis with international players and on a monthly basis for domestic players thereafter the firm procures wool backed by confirmed orders only ascertaining the margins requirements, hence, any change in prices of raw wool after the order booking is completely borne by the firm.

Further, the firm's imports are ~60% whereas exports are 70% which is expected to increase going forward which exposes the firm to foreign exchange fluctuation risk. However, the firm hedges the risk through charging premium as the price are already fixed, thus, saving the firm from incurring any loss.

### Liquidity: Adequate

The liquidity position of the firm remains adequate characterized by sufficient cushion in accruals against the repayment obligations. The firm have repayment obligations of Rs. 2.57 crores during FY25 against expected GCA of around Rs. 13-14 crores. The firm have cash and bank deposits of Rs. 7.95 crores as in September 2024. However, the working capital utilization of the firm remained moderate at ~77 % for the past twelve months period ending September 2024.

**Assumptions/Covenants:** Not Applicable

**Environment, social, and governance (ESG) risks:** Not Applicable

## Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Cotton Textile](#)

## About the firm and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

Providence Textiles, based in Ludhiana, Punjab, was established as a partnership firm by Sanjay Bansal in 2011. The firm started with manufacturing of Carpet yarns, however, in FY23, the firm discontinued its manufacturing for carpet yarns and started production of woollen and worsted yarn. A significant portion of its yarn (around 75-80%) is exported to European countries like Italy, Ireland, Spain, and Korea, with carpet yarns supplied to IKEA carpet suppliers. Additionally, the firm provides products such as hosiery, socks, jerseys, blankets, and fabrics to the Indian Forces. The firm produces yarn in the count range of Nm 10 to Nm 110, which can be twisted up to 4 plies. It specializes in Siro, Siro Lycra, and Lycra filament yarns, and also supply combed wool tops (ranging from 17.5 to 28.5 microns) in both dyed and raw white forms.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	129.21	270.87	125.95
PBILDT	10.61	20.48	13.90
PAT	3.54	6.51	5.49
Overall gearing (times)	2.04	2.03	NA
Interest coverage (times)	4.76	3.83	NA

A: Audited UA: Unaudited; NA: Not Available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	April 2030	15.39	CARE BBB-; Stable
Fund-based - LT-Working Capital Limits	-	-	-	-	45.00	CARE BBB-; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	44.61	CARE BBB-; Stable / CARE A3

**Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Working Capital Limits	LT	45.00	CARE BBB-; Stable	1)CARE BBB-; Stable (13-Jan-25)	-	-	-
2	Fund-based - LT/ST-Working Capital Limits	LT/ST	44.61	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (13-Jan-25)	-	-	-
3	Fund-based - LT-Term Loan	LT	15.39	CARE BBB-; Stable	-	-	-	-

LT: Long term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not Applicable

**Annexure-4: Complexity level of instruments rated**

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

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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