

Bansal Yarns Private Limited

March 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term bank Facilities	2.00	CARE BB-, Stable (Double B Minus; Outlook:Stable)	Reaffirmed
Short-term Bank Facilities	6.00	CARE A4 (A Four)	Reaffirmed
Total facilities	8.00 (Rs. Eight Crore only)		

**Details of instruments/facilities in Annexure-1*

Detailed description of the key rating drivers

The rating to the bank facilities of Bansal Yarns Private Limited (BYPL) is constrained by modest scale of operations, deteriorating overall solvency position and low profitability margins. The rating is further constrained by company's presence in competitive & fragmented industry with susceptibility to government regulations. The ratings, however, derive strength from experienced promoters, long track record of operations and moderate operating cycle.

Key Rating Sensitivities

Positive Factor:

- Increase in scale of operations with total operating income of more than Rs.100.00 crore on a sustainable basis
- Improvement in profitability margins as marked by PBILDT and PAT margins above 4.00% and 2.00% respectively
- Improvement in capital structure marked by overall gearing ratio below 1.00x

Negative Factor:

- Decline in scale of operations by more than 20%
- Deterioration in debt coverage indicators as marked by interest coverage and TDGCA ratios below 2.00x and above 15.00x, respectively.

Key Rating Weaknesses

Modest scale of operations with low profitability margins

The total operating income of the company increased from Rs.72.09 crore in FY18 to Rs.75.69 crore in FY19 due to high quantities sold due to increase in orders received from customers.

The profitability margins stood low marked by PBILDT margin of 1.72% in FY19 and PAT margin of 0.94% in FY19. However, the PBILDT margin declined from 2.52% in FY18 to 1.72% in FY19 mainly due to increase in the cost of traded goods sold (as a percentage of income). Subsequently, PAT margin also declined from 1.54% in FY18 to 0.95% in FY19.

Deteriorating overall solvency position

The capital structure of the company deteriorated on a year-on-year basis in FY19 mainly on account of higher outstanding of LC backed creditors as on last balance sheet date as compared to previous year.

The interest coverage ratio deteriorated from 12.80x in FY18 to 3.94x in FY19 due to high interest expenses and low PBILDT in absolute terms. However, the total debt to GCA ratio deteriorated from 2.63x for FY18 to 10.77x for FY19 due to higher total debt outstanding.

Highly competitive and fragmented industry with susceptibility to government regulations

Cotton yarn business in India is highly fragmented with presence of a large number of small and medium scale units. Due to high degree of fragmentation, small players hold very low bargaining power against both its customers as well as its suppliers resulting in such companies operating at low profit margins. Further, the yarn prices are regulated by demand-supply market position, which in turn limits the bargaining power of the entities.

Key Rating Strengths

Experienced promoters and long track record of operations

The company commenced operations in 2008. BYPL is currently being managed by Mr. Bachan Lal Bansal and Mr. Ajay Bansal. Mr. Bachan Lal Bansal and Mr. Ajay Bansal have work experience of around four decades and

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

two and a half decades respectively through their association with BYPL, group concerns and other family run business. The directors have adequate acumen about various aspects of business which is likely to benefit BYPL in the long run.

Stretched liquidity position

The operating cycle of the company stood moderate at 49 days for FY19. The average utilization of fund based limits stood at around 90% and 95% for the non-fund based limits for the past 12 months period ended January, 2020. The liquidity position of the company stood moderate marked by current ratio of 1.40x and quick ratio of 1.32x as on March 31, 2019. The company had free cash and bank balance of Rs.0.36 crore as on March 31, 2019.

Analytical approach:

Standalone

Applicable Criteria

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

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

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

[Criteria for short term instruments](#)

[Rating Methodology - Wholesale Trading](#)

About the Company

Bansal Yarns Private Limited (BYPL), based in Panipat (Haryana), was incorporated in June 2008 as a private limited company. The company is currently being managed by Mr. Bachan Lal Bansal and Mr. Ajay Bansal. BYPL is engaged in trading of cotton yarn at its facility located in Panipat, Haryana. The product line includes yarn of different counts depending upon the customer requirement.

Brief Financials (Rs. crore)	31-03-2018	31-03-2019
	A	A
Total operating income	72.09	75.69
PBILDT	1.82	1.30
PAT	1.11	0.72
Overall gearing (times)	0.53	1.24
Interest coverage (times)	12.80	3.94

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	2.00	CARE BB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	6.00	CARE A4

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	2.00	CARE BB-; Stable	-	1)CARE BB-; Stable (07-Jan-19)	1)CARE BB-; Stable (28-Dec-17)	-
2.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (07-Jan-19)	1)CARE BB-; Stable (28-Dec-17)	-
3.	Non-fund-based - ST-Letter of credit	ST	6.00	CARE A4	-	1)CARE A4 (07-Jan-19)	1)CARE A4 (28-Dec-17)	-

Annexure-3: Detailed explanation of covenants of the rated facilities: 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.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Name: Mr. Gaurav Gupta

Tel: 0172-4904002

Email: gaurav.g@careratings.com

Relationship Contact

Name: Mr. Anand Jha

Tel: 0172-4904001

Email ID: anand.jha@careratings.com

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