

Oswal Woollen Mills Limited

January 03, 2018

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Commercial Paper (CP)*	100.00	CARE A1+ [A One Plus]	Reaffirmed
Total Facilities	100.00 (Rs. One Hundred Crore only)		

* Carved out from the sanctioned working capital bank limits
 Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the CP issue of Oswal Woollen Mills Limited (OWML) continues to derive strength from the long track record of the company with more than six decades of operations, its experienced management team & resourceful promoters, diversified revenue stream, strong market presence and improving capital structure. The rating further derives strength from the comfortable liquidity profile of the company.

These rating strengths are however partially offset by the competitive nature of the industry, vulnerability of profitability margins to fluctuations in foreign exchange rates, elongated operating cycle and exposure to cyclical in the textile industry.

Going forward, steady scale-up of operations with improvement in profitability margins and efficient management of the working capital requirements shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced & resourceful promoters with an experienced management team: OWML was established in the year 1949 by Mr Vidya Sagar Oswal. Currently, Mr J L Oswal is the Chairman & Managing Director of OWML. He has more than 50 years of experience in the textile and woollen industry. He is assisted by other family members, ie, Mr Kamal Oswal (son of Mr JL Oswal), Mr Dinesh Oswal (son of Mr J L Oswal), Mr Sandeep Jain (son-in-law of Mr J L Oswal) and Mr Rishabh Oswal (son of Mr Kamal Oswal). Furthermore, the promoters are assisted by a team of qualified management in the day-to-day activities of the company. The promoters of the company are highly resourceful having infused total unsecured loans amounting to Rs.140.22 crore, as on March 31, 2017.

Financial risk profile: On account of demonetization of the currency notes by the Government of India (GoI) in Nov-2017, which led to lower demand for the denim, cotton yarn and woollen textile segments in Q3FY17 and Q4FY17, the total operating income of the company declined by ~13% in FY17 to Rs.1287.33 cr. (PY: Rs.1485.20 cr.). Further, due to competitive nature of the industry, the PBILDT margins declined in FY17 to 11.84% from 15.60% in FY16 as the company compromised on its margins to maintain its market share. The PAT margins of the company also declined to 4.43% in FY17 from 5.41% in FY16 on account of lower PBILDT at absolute level. However, the margins, continued to remain at a satisfactory level.

The capital structure of OWML remained comfortable and improved on a year-on-year basis with long-term debt-to-equity (D: E) and overall gearing ratios of 0.52x and 1.05x, respectively, as on March 31, 2017 (PY: 0.75x and 1.43x, respectively) on the back of repayment of term debt obligations and lower utilization of the sanctioned cash credit limits, coupled with accretion of profits to the networth. The debt coverage indicators of the company continued to remain comfortable marked by total debt to GCA ratio of 4.71x, as on March 31, 2017 (Previous Year: 4.14x), and interest coverage ratio of 3.21x in FY17 (Previous Year: 4.08x).

In H1FY18 (Prov.), the company achieved a total operating income of Rs. 617.31 cr. with PBILDT margins of 10.45% compared to total operating income of Rs. 707.37 cr. and PBILDT margins of 14.03% in the same period last year.

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

Comfortable liquidity profile: The liquidity position of OWML has remained comfortable after receipt of funds from its entire stake sale in Monte Carlo Fashions Limited in the latter's Initial Public Offer, in December 2014. Furthermore, OWML has received funds in the form of additional unsecured loans & preference share capital from its group companies in FY15-16. Proceeds from stake sale along with infusion of unsecured loans and preference share capital has significantly reduced the utilization of the working capital limits since December 2014 to around 35% levels.

Diversified revenue stream with income being derived from woollen and denim textile business, renewable power business, lease rentals and regular cash flows from sale of real estate in Chennai: OWML is one of the major domestic denim manufacturers with an installed capacity of around 54 million meters per annum (MMA) and accounted for around 49% of the total income in FY17 (decreased from about 54% in FY16). From the last 5 decades, OWML was mainly into manufacturing of woollen hosiery garments and woollen/worsted yarn. Woollen/worsted textile is the second largest business segment of the company and OWML is one the largest manufacturer of worsted/woollen yarn in North India. The revenue from this segment accounted for around 26% of the total revenue in FY17 (around 30% in FY16). The rapid scale-up of the denim and cotton yarn business has resulted in decline in the share of sales from the woollen textiles over the years. While the denim business is backward integrated with in-house spinning capacity; the surplus production of the cotton yarn is sold to the market which accounted for around 14% of the sales during FY17 (around 13% during FY16). Furthermore, the company has invested in solar & wind power plants with an aggregate capacity of 15.3 MW (10 MW solar and 5.3 MW wind). The segment generated total revenue of Rs.25crore in FY17 (Rs.24 crore during FY16). The company also generates lease income from its building premises in Gurugram, and is also developing a residential real estate project on a revenue sharing basis in Chennai.

Strong market presence and established distribution network: In the domestic market, the company's dealers are mainly spread over in North, North-West, North-East and Central India with the clients of the company in India including all premium garment manufacturers. OWML also sells yarns to export intermediaries in India, for export to fabric manufacturers abroad. OWML's denim segment sells denim fabric essentially in the domestic market through agents and also directly to the garment companies. The group owns the "Monte Carlo" and the "Cotton County" brand names.

Integrated operations and economies of scale in procurement: OWML has integrated operations across the textile value chain and is engaged in the manufacturing of yarn, fabric as well as garments. As other group companies are also engaged in textile operations, centralized procurement of raw materials like cotton, manmade fibres, etc, for the entire group provide benefits with better raw material procurement terms.

Key Rating Weaknesses

Elongated operating cycle: The operating cycle of OWML remained elongated to ~148 days as on March 31, 2017 (PY: ~141 days) majorly on account of elongation of average collection days. However, the cash credit utilization of the company remained at a comfortable level of ~32% over the last 12 months ending November 2017.

Susceptibility of margins to foreign exchange fluctuations: The company has high dependence on imported raw material. The company imports wool from Australia, New Zealand, South Africa, USA and Russia. In the absence of any major natural hedge, the profitability margins remain exposed to any adverse fluctuation in the foreign exchange currency prices since the company does not completely hedges its exposure.

Prospects: OWML is exposed to the inherent cyclicity in the textile sector. Although cotton prices have stabilized over the past year, the prices of cotton yarn have spiralled. Risks on account of exposure to volatility in raw material prices and global demand-supply scenario continue to remain. However, the risk is mitigated to some extent, as the revenue stream of the company is diversified with the company also engaged in operating solar and wind power plant, and also generated income from rental properties.

Analytical Approach: Standalone

Applicable Criteria

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

[Financial ratios – Non-Financial Sector](#)
[CARE's methodology for manufacturing companies](#)
[CARE's policy on default recognition](#)
[Criteria for short term instruments](#)
[CARE's methodology for Cotton Yarn Manufacturing Companies](#)
[Rating Methodology- Factoring linkages in rating](#)
About the Company

Incorporated in 1949 and based in Ludhiana (Punjab), OWML is the parent company of the 68-years old Nahar Group which is diversified into various business such as textiles, retail, BOPP films, renewable power, real estate, sugar and financial services through its group concerns viz. Monte Carlo Fashions Limited (MCFL), Nahar Spinning Mills Limited (NSML), Nahar Capital and Financial Services Limited (NCFCL), Nahar Industrial Enterprises Limited (NIEL), Nahar Poly Film Limited (NPFL; rated 'CARE A-; Stable/CARE A2+') and Vanaik Spinning Mills Limited[VSML; rated 'CARE A1+ (SO)'].

OWML is engaged in the manufacturing of woollen yarn, knitwear, denim cloth, processed fibres, wool tops and other textile products. The company currently has an installed capacity of 54 million meters per annum for denim cloth, 65,316 spindles and 912 rotors for cotton yarn along with 37,520 spindles for worsted/woollen yarn. OWML is one of the major players in Denim fabric and Woollen yarn in India. OWML has also invested in solar & wind power plants with aggregate capacity of 15.3 MW (10 MW solar and 5.3 MW wind) in the states of Rajasthan (solar), Tamil Nadu (wind), Madhya Pradesh (wind) and Karnataka (wind). OWML also generates lease rental income from its real estate activities.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1485.20	1287.33
PBILDT	231.64	152.39
PAT	80.34	57.08
Overall gearing (times)	1.43	1.05
Interest coverage (times)	4.08	3.21

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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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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
Commercial Paper	-	-	7 days to 1 year	100.00	CARE A1+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper	ST	100.00	CARE A1+	-	1)CARE A1+ (23-Sep-16)	1)CARE A1+ (22-Mar-16) 2)CARE A1 (03-Sep-15)	-

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