

## Vardhman Spinners

May 22, 2018

### Ratings

| Facilities                | Amount<br>(Rs. crore)  | Rating <sup>1</sup>  | Rating Action   |
|---------------------------|--|--|-----------------|
| Long-term Bank Facilities | 10.96  | <b>CARE BB-; Stable<br/>(Double B Minus;<br/>Outlook Stable)</b> | <b>Assigned</b> |
| <b>Total Facilities</b>   | <b>10.96<br/>(Rupees Ten crore and ninety<br/>six lakh only)</b> |  |                 |

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale and key rating drivers

The rating assigned to the bank facilities of Vardhman Spinners (VSP) is constrained by its small scale of operations & low PAT margins and weak solvency position. The rating is also constrained by partnership nature of constitution, exposure to raw material price volatility and highly competitive & fragmented nature of industry. The rating, however, derives support from the experienced promoters, long track record of operations, short operating cycle and favorable location of operations.

Going forward, the ability of the firm to scale up its operations while improving the profitability margins and overall solvency position would remain the key rating sensitivities.

### Detailed description of the key rating drivers

#### Weaknesses

#### **Small scale of operations along with low PAT margins**

The firm's scale of operations has remained small marked by Total Operating Income (TOI) of Rs. 40.82 crore in FY18 (Prov) (refers to the period April 1 to March 31). Additionally, the scale of operations of the company remained almost stable during last three financial years. The small scale of operations limits the firm's financial flexibility in times of stress and deprives it from scale benefits.

The PBILDT margin stood moderate at 7.87% in FY18 (Prov). However, PAT margin remained below unity for last four years largely on account of high interest and depreciation expenses.

#### **Weak solvency position**

The capital structure of the firm stood leveraged reflected by overall gearing ratio of 10.45x as on March 31, 2018 (Prov). The debt coverage indicators of the firm stood weak as characterized by interest coverage ratio of 1.81x in FY18 (Prov) and total debt to GCA of 11.24x for FY18 prov.

#### **Partnership nature of constitution**

VSP's constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partners' capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partners. Moreover,

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factor affecting credit decision of the lenders.

#### ***Exposure to raw material price volatility***

The main raw materials required for production are polyester yarn, chemicals and dyeing colors. Polyester yarn is a derivative of crude oil, and hence its prices are directly correlated to the variations in global crude oil prices which are inherently highly volatile. Therefore, the firm is exposed to any fluctuation in the prices of polyester yarn.

#### ***Highly competitive and fragmented nature of industry***

The firm operates in the textile manufacturing and processing industry which is highly competitive industry with presence of numerous independent small-scale enterprises owing to low entry barriers leading to high level of competition in the processing segment. Furthermore, the Indian textile industry also faces competition from the low cost countries like China and Bangladesh. The intense competition in the textile processing industry also restricts ability to completely pass on volatility in input cost to its customers, leading to lower profit margins.

#### ***Strengths***

##### ***Experienced partners and established track record of entity***

VSP is currently being managed by Mr. Ajay Kumar Jain, Mr. Hemant Kumar Jain, Ms Shashi Jain and Ms Dipty Jain as its partners. Mr. Ajay Kumar Jain has a work experience of around two and a half decades and Mr. Hemant Kumar Jain has a work experience of one and a half decades. Ms Shashi Jain and Ms Dipty Jain have work experience of around one decade each through their association with VSP only. Furthermore, the long track record has aided the firm in having established relationship with customers and suppliers

##### ***Favorable location***

VSP's manufacturing facility is located in Panipat, Haryana which is one of the largest textile hubs in India for blankets, fabrics and floor coverings and is a ready available market for these products. The firm benefits from the location advantage in terms of easy accessibility to large customer base located in Panipat. Additionally, various raw materials required in manufacturing of products are readily available owing to established supplier base in the same location. Furthermore, skilled labour is also available by virtue of it being situated in the textile cluster.

##### ***Short operating cycle***

The operating cycle of the firm stood short at 44 days for FY18 (Prov) (PY: 35 days). VSP is required to maintain adequate inventory of raw materials for smooth production process and finished/traded goods to meet the demand of the customers. The average utilization of working capital limit stood at 90% for the past 12 month period ended April 2018.

**Analytical Approach:** Standalone

#### **Applicable Criteria**

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

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

[CARE's methodology for manufacturing companies](#)

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

#### **About the company**

Vardhman Spinners (VSP), based in Panipat, Haryana was established in May 2009 as a partnership firm. The firm is currently being managed by Mr. Ajay Kumar Jain, Mr. Hemant Kumar Jain, Ms Shashi Jain and Ms Dipty Jain as its partners sharing profit and losses equally. VSP was engaged in manufacturing of shoddy yarn till March 2015. From May 2015

onwards, VSP started manufacturing of mink blankets at its manufacturing facility located in Panipat with an installed capacity of producing 54 lakh kg per annum of mink blankets as on March 31, 2018. The firm undertakes in-house dyeing and stitching of these blankets. The firm is also into trading of grey fabric with local procurement and sale of the same. Trading constituted 5% of the total operating income in FY18 (Prov.). VSP procures raw material in the form of polyester yarn from manufacturers located in Panipat (Haryana) and Silvassa (Dadra & Nagar Haveli). It sells the final product directly to various wholesalers located in Haryana, Punjab, Rajasthan and Uttar Pradesh. The firm has a group concern namely MDJ Texco Fab Private Limited (MDJ) (BWR BB-; Stable) which is engaged in manufacturing of shoddy wool yarn, acrylic yarn, polar fleece blanket, polar fleece rolls, etc since 2004.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (Prov) |
|------------------------------|----------|-------------|
| Total operating income       | 41.26    | 40.82       |
| PBILDT                       | 3.10     | 3.21        |
| PAT                          | 0.01     | 0.03        |
| Overall gearing (times)      | 8.40     | 10.45       |
| Interest coverage (times)    | 1.83     | 1.81        |

A: Audited, Prov: Provisional

**Status of non-cooperation with previous CRA:** CRISIL B ; Stable ; Issuer not cooperating, Assigned on June 20, 2017

**Any other information:** Not Applicable

**Rating History (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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### **About CARE Ratings:**

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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-Term Loan   | -                | -           | June 2022     | 4.96                          | CARE BB-; Stable                          |
| Fund-based - LT-Cash Credit | -                | -           | -             | 6.00                          | CARE BB-; Stable                          |

**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.      | Fund-based - LT-Cash Credit Facility   | LT              | 6.00                           | CARE BB-; Stable | -   | -   | -   | -   |
| 2.      | Fund-based - LT-Term Loan              | LT              | 4.96                           | CARE BB-; Stable | -   | -   | -   | -   |

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