

Vardhman Spinners

July 22, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	11.87 (enhanced from Rs.10.74 crore)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Total Facilities	11.87 (Rupees Eleven crore and Eighty Seven Lakhs only)		

Details of instruments/facilities in Annexure-I

Detailed Rationale and key rating drivers

The rating assigned to the bank facilities of Vardhman Spinners (VSP) continues to remain constrained by its small scale of operations with low PAT margin and leveraged capital structure. The rating is further constrained by partnership nature of constitution, exposure to raw material price volatility and highly competitive & fragmented nature of industry. The rating, however, continues to derive support from the experienced promoters, long track record of operations, moderate debt coverage indicators, short operating cycle and favorable location of operations.

Going forward, the ability of the firm to scale up its operations profitably while improving the overall solvency position shall remain the key rating sensitivity. Also any higher than envisaged debt funded capital structure resulting in moderation in gearing levels shall also remain key monitor-able.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations with low PAT margin

The TOI of the firm increased from Rs.40.82 crore in FY18 to Rs.64.81 crore in FY19 (Prov.) at an annual growth rate of 58.77% due to higher quantity sold due to increase in orders received from existing as-well-as new customers added. However, the same continues to remain small. The small scale of operations limits the financial flexibility of the firm in times of stress and deprives it from scale benefits.

Further, the PBILDT margin of the firm stood moderate at 7.54% in FY19 (Prov.). The same declined from 7.80% in FY18 due to decline in sales realization. However, PAT margin stood low at 1.37% in FY19 (Prov.). The GCA of the firm also stood low at Rs.3.00 crore in FY19 (Prov.).

Leveraged capital structure

The capital structure of the firm stood leveraged marked by overall gearing ratio of 6.33x as on March 31, 2019 (Prov.). The same improved from 9.85x as on March 31, 2018 due to accretion of profits into the net worth base of the firm and infusion of partners' capital in FY19.

Exposure to raw material price volatility

The main raw materials required for production is polyester yarn. Polyester yarn is a derivative of crude oil, and hence its price is directly correlated to the variations in global crude oil prices which is inherently highly volatile. Therefore, the firm is exposed to any fluctuation in the prices of polyester yarn. Any sudden spurt in the raw material prices may not be passed on to customers completely owing to firm's presence in highly competitive industry.

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.

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.

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

Key Rating 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.

Moderate debt coverage indicators

The debt coverage indicators of the firm stood moderate marked by interest coverage ratio of 2.59x in FY19 (Prov.) and total debt to GCA ratio of 6.31x for FY19 (Prov.). The debt coverage indicators improved on a year-on-year basis in FY19 on account of increase in PBILDT in absolute terms and increase in gross cash accruals of the firm in FY19 (Prov.).

Adequate liquidity position

The average operating cycle of the firm stood short at 36 days for FY19 (34 days for FY18). The average utilization of working capital limits remained between 70%-80% for the last 12 months period ended June 2019. The current ratio and quick ratio stood moderate at 1.56x and 1.00x, respectively, as on March 31, 2019.

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 labor is also available by virtue of it being situated in the textile cluster.

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 Firm

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. The firm is currently engaged in Manufacturing of mink blankets and Upper shoe material at its manufacturing facility located in Panipat with an installed capacity of producing 54 lakh kg per annum of mink blankets as on June 30, 2019. 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 FY19 (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. Besides VSP, the partners are also associated with group concerns - MDJ Texco Fab Private Limited (MDJ) (CARE BB-; Stable) which is engaged in manufacturing of shoddy wool yarn, acrylic yarn, polar fleece blanket, polar fleece rolls, etc. and MJ Home Furnishing which is engaged in manufacturing of fabric.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (P)
Total operating income	40.82	64.81
PBILDT	3.19	4.89
PAT	0.06	0.89
Overall gearing (times)	9.85	6.33
Interest coverage (times)	1.80	2.59

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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-Term Loan	-	-	December 2023	4.87	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	7.00	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 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-Term Loan	LT	4.87	CARE BB-; Stable	-	1)CARE BB-; Stable (22-May-18)	-	-
2.	Fund-based - LT-Cash Credit	LT	7.00	CARE BB-; Stable	-	1)CARE BB-; Stable (22-May-18)	-	-

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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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.

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