

Viraat Textiles

March 12, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	5.94	CARE BB-; Stable (Double B Minus; Outlook Stable)	Assigned
Short-term Bank Facilities	0.80	CARE A4 (A Four)	Assigned
Total facilities	6.74 (Rupees Six Crore and seventy four lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of Viraat Textiles (VTS) are constrained by its short track record, small scale of operations along with low net worth base and susceptibility of margins to fluctuation in raw material prices. The ratings are further constrained by partnership nature of constitution and cyclicity associated with textile sector coupled with highly fragmented nature of fabric processing industry. The ratings, however, derive strength from experienced partners, moderate profitability margins & solvency position, short operating cycle and location advantage.

Going forward, the ability of the firm to increase its scale of operations while maintaining its overall solvency position would be the key rating sensitivities

Detailed description of the key rating drivers

Weaknesses

Short track record, small scale of operations along with low net worth base

Owing to limited track record of operations, the firm's scale of operations has remained small marked by Total Operating Income (TOI) of Rs. 14.21 crore in FY17 (refers to the period April 1 to March 31) along with a net worth base of Rs. 3.99 crore as on March 31, 2017. The small scale of operations limits the firm's financial flexibility in times of stress and deprives it from scale benefits.

Susceptibility of margins to fluctuation in raw material prices

The basic raw materials used are sulphuric acid, acetic acid, oxalic acid, soda ash, etc. Majority of these raw materials are petroleum based and sulphur based and subject to volatility in prices of crude oil and sulphur prices in domestic and international markets. This makes the profitability

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

vulnerable to sharp movements of raw material prices. 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

VTS'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, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision of the lenders. However, partners have infused additional funds amounting to Rs. 0.41 crore in FY15-17 period to fund various business requirements of the firm.

Cyclicality associated with textile sector coupled with highly fragmented nature of fabric processing industry

Indian textile industry which accounts for 4% of the GDP, is inherently cyclical in nature. Any adverse changes in the global economic outlook as well as demand-supply scenario in the domestic market directly impacts demand of the textile industry. Further, the fabric processing industry in India is highly fragmented and dominated by a large number of independent and small scale unorganized players leading to high competition among industry players. Smaller companies like VTS are more vulnerable to intense competition and have limited pricing flexibility as compared with larger companies who have better efficiencies and pricing power considering their scale of operations.

Strengths

Experienced partners

VTS is currently being managed by Mr. Vikram Takkar, Mr. Varun Takkar and Mr. Anant Prakash Sikri. Mr. Vikram Takkar has a work experience of around one and a half decades and Mr. Varun Takkar has a work experience of around one decade through their association with VTS and ST Dyeing. Mr. Anant Prakash Sikri has a work experience of around three and a half decades through his association with VTE, Anant Jewellers and other regional entities engaged in the dyeing business.

Moderate profitability margins

The profitability margins of the firm stood moderate marked by PBILIDT margin and PAT margin of 13.99% and 5.45% respectively in FY17 on account of job work nature of business. However, PAT margin improved from 0.78% in FY16 to 5.45% in FY17 largely on account of an increase in PBILDT in absolute terms coupled with declining interest and depreciation costs in FY17.

Moderate solvency position

The capital structure of the firm stood moderate with overall gearing ratio of 1.57x as on March 31, 2017. The same improved from 1.75x as on March 31, 2016 due to accretion of profits into the net worth base coupled with infusion by partners amounting to Rs. 0.08 crore in FY17 period.

Furthermore, the debt coverage indicators of the firm stood moderate as reflected by interest coverage ratio of 8.32x in FY17 and total debt to GCA of 3.58x for FY17.

Short operating cycle

The operating cycle of the firm stood at 22 days for FY17 (PY :24 days). The firm offers a credit period of up to three months to its customers. The firm maintains inventory in the form of raw material (dyeing chemicals) to ensure smooth work order execution. This led to average inventory period of 6 days for FY17 (PY: 6 days). On the supply side, the firm receives a credit period of upto two and a half months from its suppliers. The average utilization of the working capital limits remained at ~70% for the last 12 months period ended November 2017.

Location advantage

VTS is engaged in dyeing of yarn and all types of fabric at its facility located in Ludhiana, Punjab which is a major hub of textile industry in India. Hence, VTS's presence in this region results in benefit being derived from easy availability of material with lower transportation cost. The firm mainly procures raw material from Ludhiana itself. Thus, VTS's presence in the major hub of textile industry in India ensures regular supply of goods at low transportation cost.

Analytical Approach: Standalone

Applicable Criteria

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

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

[Criteria for short term instruments](#)

[Rating Methodology - Service Sector Companies](#)

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

About the company

Viraat Textiles (VTS) was established in December 2012 as a partnership firm by Mr. Vikram Takkar, Mr. Varun Takkar and Mr. Anant Prakash Sikri sharing profit and losses in the ratio 1:1:2 respectively. However, the operations of the firm commenced in September 2014. The firm is engaged in dyeing of yarn and all types of fabric on job work basis at its facility in Ludhiana, Punjab. The firm procures its raw material in the form of chemicals locally from Punjab while the yarn and fabric is provided to the firm by its customers only. The firm has two group concerns namely ST Dyeing and Anant Jewellers.

ST Dyeing was established in 2000 as a partnership firm and is engaged in dyeing of yarn and fabric. Anant Jewellers was established in 1997 as a partnership firm and is engaged in manufacturing and trading of jewellery.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	11.62	14.21
PBILDT	1.65	1.99
PAT	0.09	0.77
Overall gearing (times)	1.75	1.57
Interest coverage (times)	3.58	8.32

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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	-	-	November 2023	4.44	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	1.50	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.80	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 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-Term Loan	LT	4.44	CARE BB-; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit Facility	LT	1.50	CARE BB-; Stable	-	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	0.80	CARE A4	-	-	-	-

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