Winsome Textile Industries Limited

August 20, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	164.40 (enhanced from 155.30)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed; Outlook revised from Stable to Negative
Short term Bank Facilities	277.10	CARE A3 (A Three)	Reaffirmed
Total Facilities	441.50 (Rs. Four hundred forty one crore and fifty lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Winsome Textile Industries Limited (WTIL) continue to derive strength from the experienced promoters and established track record of the company. The ratings further derive strength from the improving capital structure, reputed clientele and diversified product portfolio. The ratings, however, remain constrained by the decline in income and profitability in FY20 (refers to the period from April 01 to March 31), high utilization of working capital limits in the past, and susceptibility of profitability margins to industry demand, volatility in cotton prices and government regulations.

Rating Sensitivities

Positive Factors

- *Sustainable and significant increase in income while improving the PBILDT margins to ~15%*
- *Significant improvement in the capital structure with overall gearing ratio improving to less than 1x with reduced working capital requirements etc.*

Negative Factors

- *Decline in income or profitability remaining significantly more than projected*
- *Any major deterioration in the capital structure arising from debt funded capex, increased working capital borrowings leading to an above 2.5x overall gearing ratio*

Outlook: Negative

The outlook has been revised from Stable to Negative owing to susceptibility of operating performance of WTIL to the current slowdown in the textile industry, especially in the light of Covid-19 pandemic which can potentially lead to moderation in the financial performance and liquidity profile of the company in the near future. The outlook may be revised to 'Stable' if WTIL is able to achieve better operational performance leading to improvement in the financial risk profile while maintaining adequate liquidity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established track record and reputed clientele: WTIL was incorporated in 1980 and is looked after by Mr. Ashish Bagrodia, who is currently the Chairman and Managing Director of the company and has nearly two decades of experience in the textile industry. The promoters are assisted by a team of professionals who are experienced in their respective domains. The company has been in this line of business for nearly four decades now and has created established relations with the suppliers and its buyers (both domestic and overseas). The company supplies yarn to many well-known domestic companies which in turn supply the finished product to reputed global brands like GAP, H&M, Marks & Spencer, Tommy Hilfiger, etc.

Diversified and value-added product portfolio: The company is one of the largest manufacturers of Melange Yarn and dyed yarn in India. WTIL is involved into spinning of large variety of value-added fibre, silk, wool, linen, nylon, PVA, etc. in different blends and specialty products like slub yarn, mélange yarn, gassed mercerized yarns, etc. The company's product profile comprises almost 100% of value added yarns. The company is also engaged in the manufacturing of knitted fabric of various blends. The company's product portfolio, being value added niche products, faces relatively lesser competition in domestic and global market which results in higher PBILDT margins as compared to grey yarn.

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

Improving capital structure: The capital structure of the company as marked by long-term debt-to-equity and overall gearing ratios improved to 0.31x and 2.00x respectively, as on March 31, 2020 from 0.44x and 2.14x respectively, as on March 31, 2019 on account of scheduled repayment of term loans availed by the company.

Key Rating Weaknesses
Decline in income and profitability in FY20: The total operating income of the company declined by ~8% in FY20 owing to lower demand due to general economic slowdown prevailing in FY20 which in turn led to lower sales realizations and lower quantity sold in FY20. The performance was also impacted on account of outbreak of Covid-19 pandemic leading to lower demand in Q4. The PBILDT margins of the company declined to 10.06% in FY20 from 11.94% in FY19 mainly on account of the prevailing demand slowdown during the year leading to limited ability to pass on costs to the end customers. Further, the proportion of mélange yarn (associated with higher margins) sold remained lower for most part of the year. The company reported loss of Rs.2.92 cr. at the net level in FY20 compared to net profit of Rs.12.12 cr. in FY19 mainly on account of the lower PBILDT and foreign exchange losses (on borrowings) of Rs.6.47 cr. incurred in FY20 due to considerable depreciation in USD/INR in Q4FY20. Owing to lower profitability in absolute terms, the total debt to GCA ratio deteriorated to 15.49x as on March 31, 2020 from 11.16x, as on March 31, 2019, while the interest coverage ratio also deteriorated to 1.37x, as on March 31, 2020 (PY: 1.79x).

Susceptibility of profitability margins to volatility in cotton prices and government regulations: The domestic prices of cotton, the key input for spinners like WTIL, are governed by various factors like the international prices, the government regulations, the effect of monsoon, etc. Considering that the raw material costs accounted for a significant portion of the total income (~53% in FY20), any adverse fluctuations in the raw material prices can severely impact the profitability of WTIL. The sector is also susceptible to government interventions like fixing the minimum support price for cotton, imposing export ban on the yarn export, withdrawals of duties etc. All this has a direct bearing on the profitability margins of WTIL.

Liquidity : Adequate - As on July 31, 2020, the company had a cushion of Rs.25.90 cr. in its fund based working capital limits availed. The company has a total debt repayment obligation of ~Rs.18 Cr. in FY21 expected to be met through internal accruals generated by the company. The company has availed moratorium for its debt obligations due from March-2020 to August-2020. Further, it has also availed COVID loans amounting to Rs.22 cr. under the Emergency Credit Line Guarantee Scheme (ECLGS) from the consortium of banks to manage its working capital needs. The company does not have any major capex plans for the projected period. The current ratio and the quick ratio of WTIL stood at 0.86x and 0.39x, respectively, as on March 31, 2020. The operating cycle of the company elongated to ~92 days as on March 31, 2020 (PY: ~80 days). The average utilization of the working capital limits remained ~96% in the twelve month period ended July-2020.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning ‘Outlook’ and ‘credit watch’ to Credit Ratings
CARE’s Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE’s methodology for manufacturing companies
Criteria for short term instruments
Rating Methodology for Cotton Textile Manufacturing
Liquidity analysis of non-financial sector entities

About the Company
Winsome Textile Industries Limited (WTIL) was incorporated as a Public Limited Company in 1980. WTIL operates from its manufacturing facility in Baddi, Himachal Pradesh. WTIL is engaged in the manufacturing of 100% cotton yarn and cotton yarn blended with viscose/ polyester/ acrylic/ linen/ wool and value added yarns like melange and solid dyed. The company is also engaged in the manufacturing of knitted fabric of various blends. As on March 31, 2020, the company has an installed capacity of 1,10,000 spindles, yarn/fibre dyeing capacity of 30 MT (metric tonnes) per day and knitting capacity of 8MT per day which is a forward integration into knitted fabrics from the mélange yarn. The company also operates an in-house hydro power plant of 3.5 MW to meet a part of its power requirements. Apart from catering to the domestic market, the company also exports its products with the export income constituting ~35% of the total income in FY20 (~37% in FY19).

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	724.18	664.00
PBILDT	86.44	66.80
PAT	12.12	-2.93
Overall gearing (times)	2.14	2.00
Interest coverage (times)	1.79	1.37

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	-	-	-	51.38	CARE BBB-; Negative
Fund-based - ST-EPC/PSC	-	-	-	85.00	CARE A3
Non-fund-based - ST-BG/LC	-	-	-	142.10	CARE A3
Fund-based - LT-Term Loan	-	-	April-2024	79.40	CARE BBB-; Negative
Fund-based - LT-Working Capital Demand loan	-	-	-	33.62	CARE BBB-; Negative
Fund-based - ST-PC/Bill Discounting	-	-	-	50.00	CARE A3

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	51.38	CARE BBB-; Negative	-	1)CARE BBB-; Stable (07-Oct-19)	1)CARE BBB-; Stable (05-Dec-18)	1)CARE BBB-; Stable (04-Dec-17)
2.	Fund-based - ST-EPC/PSC	ST	85.00	CARE A3	-	1)CARE A3 (07-Oct-19)	1)CARE A3 (05-Dec-18)	1)CARE A3 (04-Dec-17)
3.	Non-fund-based - ST-BG/LC	ST	142.10	CARE A3	-	1)CARE A3 (07-Oct-19)	1)CARE A3 (05-Dec-18)	1)CARE A3 (04-Dec-17)
4.	Fund-based - LT-Term Loan	LT	79.40	CARE BBB-; Negative	-	1)CARE BBB-; Stable (07-Oct-19)	1)CARE BBB-; Stable (05-Dec-18)	1)CARE BBB-; Stable (04-Dec-17)
5.	Fund-based - LT-Working Capital Demand loan	LT	33.62	CARE BBB-; Negative	-	1)CARE BBB-; Stable (07-Oct-19)	1)CARE BBB-; Stable (05-Dec-18)	1)CARE BBB-; Stable (04-Dec-17)
6.	Fund-based - ST-PC/Bill Discounting	ST	50.00	CARE A3	-	1)CARE A3 (07-Oct-19)	1)CARE A3 (05-Dec-18)	1)CARE A3 (04-Dec-17)

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - LT-Working Capital Demand loan	Simple
4.	Fund-based - ST-EPC/PSC	Simple
5.	Fund-based - ST-PC/Bill Discounting	Simple
6.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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