

Winsome Textile Industries Limited

October 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Ratings Action
Long-term Bank Facilities	155.30 (reduced from 180.87)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	277.10 (reduced from Rs.277.60)	CARE A3 (A Three)	Reaffirmed
Total	432.40 (Rs. Four Hundred Thirty Two crore and Forty lakh 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 solvency position, reputed clientele and diversified product portfolio.

The ratings strengths are partially offset by high utilization of working capital limits, susceptibility of profitability margins to industry demand, volatility in cotton prices and government regulations.

The ability of the company to profitably scale-up its operations while efficiently managing the working capital requirements will remain the key rating sensitivities. Furthermore, timing and scale of any capital expenditure and its funding mix will remain key rating monitor able.

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 over 35 years 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 companies like GAP, H&M, Marks & Spencer, Tommy Hilfiger, etc.

Diversified and value-added product portfolio

The company is one of the large manufacturers of Melange Yarn and dyed yarn in India. WTIL is involved into spinning of large variety of value-added fibres in blends, specialty and specialty products. The company's product profile comprises almost 100% of value added yarn. The company's product portfolio includes niche products having relatively lesser competition in domestic and global market which have resulted in higher profit margin as compared to commodity grey yarn. The players which manufacture melange yarn are few and mostly consume it captively to produce fabric, thus increasing the demand of the yarn in the market. These value added yarns are used in making T-shirts and fancy clothing.

Improving solvency position

The capital structure of the company as marked by long-term debt-to-equity and overall gearing ratios improved to 0.44x and 2.14x, as on March 31, 2019, respectively from 0.69x and 2.48x, as on March 31, 2018, respectively on account of scheduled repayment of term loans availed by the company and accretion of profits to net-worth. The debt coverage indicators marked by total debt to GCA ratio and interest coverage ratio also improved on a year-on-year basis to 11.53x, as on March 31, 2019 and 1.79x in FY19, respectively (PY: 14.94x and 1.65x, respectively). The long-term debt-to equity ratio and overall gearing ratio stood at 0.40x and 2.13x, respectively, in Q1FY20 (Provisional) compared to 0.65x and 2.42x, in Q1FY19 (Provisional).

Key Rating Weaknesses

Fluctuating PBILDT margins

Though the PBILDT margins of the company improved marginally from 11.39% in FY18 to 11.94% in FY19, the same deteriorated to 11.70% in Q1FY20 (Provisional) compared to 14.07% in Q1FY19 (Provisional). The moderation in the PBILDT

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

margins during Q1FY20 (Provisional) was owing to high raw material cost incurred by the company. Because of subdued market demand, high raw material cost could not be passed on to the customers leading to moderation in the PBILDT margins. The PAT margins, however, improved to 1.20% in Q1FY20 (Provisional), compared to 0.94% in Q1FY19 (Provisional), on account of low interest and depreciation charges. The operating income of the company declined marginally (by 4%) to Rs.170.32 crore in Q1FY20 (Provisional) from Rs.177.22 crore in Q1FY19 (Provisional).

Susceptibility of margins to volatility in cotton prices and government regulations

The domestic prices of cotton, the key factor for spinning industries are governed by various factors like the international prices, the government regulations, the effect of monsoon, etc. Considering that the raw material cost accounted for a major portion of the total income (~65% in FY19), any adverse fluctuations in the raw material prices can severely impact the profitability of WTIL in a competitive market environment. The sector is also susceptible to government interventions. Instances in the past such as fixing the minimum support price for cotton, imposing export ban on the yarn export, withdrawals of duties etc. which have a bearing on the profitability and operations of the company.

Liquidity: Adequate

Liquidity is adequate marked by sufficient cushion in accruals vis-à-vis repayment obligation of Rs.25.55 crore due in FY20. The company has modular replacement capex plans in FY20 (Rs.3 Cr.) which would be funded through its internal accruals. The bank limits remained utilized to the extent of ~95% for the past twelve months ending July 2019 with free cash balance of Rs.2.73 crore as on March 31, 2019. The current ratio stands at 0.92x, as on March 31, 2019. WTIL's operating cycle improved to 80 days as on March 31, 2019 (PY: ~94 days) on account of lower inventory holding days at 109 days as on March 31, 2019 (PY: 131 days). Since the company has a large variety of product type, it has to maintain sufficient inventory to ensure smooth operations. The payment from the export clients are backed by LCs, which have a maturity period varying from 90 to 120 days. The payment from domestic clients takes ~2 month to realize. All this has led to an average collection period of ~63 days (PY: 67 days).

Analytical approach: Standalone

Applicable Criteria

Criteria on Cotton Yarn

Criteria on assigning Outlook to Credit Ratings

Financial ratios – Non-Financial Sector

CARE's methodology for manufacturing companies

CARE's policy on default recognition

CARE's methodology for Short Term Instruments

About the Company

Winsome Textiles Industries Limited (WTIL) was incorporated as a Public Limited Company in 1980. WTIL is engaged in the manufacturing of 100% cotton yarn and cotton yarn blends with viscose/ polyester/ acrylic/ linen/ wool and silk in raw white, melange and solid dyed. As on March 31, 2019, the company has an installed capacity of 1,10,000 spindles, yarn/fibre dyeing capacity of 30 MT per day and knitting capacity of 8MT per day which is a forward integration into knitted fabrics from the mélange yarn. Apart from catering to the domestic market, the company also exports its products with the export income constituting ~37% of the total income in FY19 (~37% in FY18).

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	699.52	724.18
PBILDT	79.66	86.44
PAT	4.96	12.12
Overall gearing (times)	2.48	2.14
Interest coverage (times)	1.65	1.79

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	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-; Stable
Fund-based - ST-EPC/PSC	-	-	-	-	85.00	CARE A3
Non-fund-based - ST-BG/LC	-	-	-	-	142.10	CARE A3
Fund-based - LT-Term Loan	-	-	-	July 2023	70.30	CARE BBB-; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	-	33.62	CARE BBB-; Stable
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 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-Cash Credit	LT	51.38	CARE BBB-; Stable	-	1)CARE BBB-; Stable (05-Dec-18)	1)CARE BBB-; Stable (04-Dec-17)	1)CARE BBB-; Stable (24-Jan-17)
2.	Fund-based - ST-EPC/PSC	ST	85.00	CARE A3	-	1)CARE A3 (05-Dec-18)	1)CARE A3 (04-Dec-17)	1)CARE A3 (24-Jan-17)
3.	Non-fund-based - ST-BG/LC	ST	142.10	CARE A3	-	1)CARE A3 (05-Dec-18)	1)CARE A3 (04-Dec-17)	1)CARE A3 (24-Jan-17)
4.	Fund-based - LT-Term Loan	LT	70.30	CARE BBB-; Stable	-	1)CARE BBB-; Stable (05-Dec-18)	1)CARE BBB-; Stable (04-Dec-17)	1)CARE BBB-; Stable (24-Jan-17)
5.	Fund-based - LT-Working Capital Demand loan	LT	33.62	CARE BBB-; Stable	-	1)CARE BBB-; Stable (05-Dec-18)	1)CARE BBB-; Stable (04-Dec-17)	1)CARE BBB-; Stable (24-Jan-17)
6.	Fund-based - ST-PC/Bill Discounting	ST	50.00	CARE A3	-	1)CARE A3 (05-Dec-18)	1)CARE A3 (04-Dec-17)	1)CARE A3 (24-Jan-17)

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

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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