

Winsome Textile Industries Limited

November 20, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	164.40	CARE BBB- (Under Credit watch with Negative Implications) (Triple B Minus) (Under Credit watch with Negative Implications)	Placed on Credit watch with Negative Implications
Short Term Bank Facilities	277.10	CARE A3 (Under Credit watch with Negative Implications) (A Three) (Under Credit watch with Negative Implications)	Placed on Credit watch with Negative Implications
Total Bank 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) have been placed on 'Credit Watch with Negative Implications' taking cognizance of the company's application for One Time Restructuring (OTR), of its bank facilities, under the Reserve Bank of India's (RBI) guidelines issued on August 06, 2020. The rating action is in line with CARE's criteria on 'Analytical treatment for one-time restructuring due to Covid-19 related stress' issued on September 29, 2020. The action also reflects the uncertainty on the extent and timing of recovery in the operating and financial performance of the company, which is currently impacted by the Covid-19 led slowdown. CARE will continue to monitor the developments in this regard and will take a view once the terms of the OTR proposal and its implications on WTIL are clear. Further, receipt of approval from the lenders along with the recovery in the financial & operational performance of WTIL will be key rating monitorables.

The ratings assigned to the bank facilities of 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) and H1FY21 (Unaudited), 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
- Rejection of one-time restructuring (OTR) application, delay in its implementation or unfavorable terms leading to pressure on cash flows

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.

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: 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).

In H1FY21 (UA), the company has achieved a total operating income of Rs.253.97 cr. which declined by ~24% compared to Rs.334.79 cr. achieved in H1FY20 (UA). The PBILDT margins also declined to 5.32% in H1FY21 (UA) from 12.06% in H1FY20 (UA).

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: Stretched - The company had 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. In November-2020, the company has applied for OTR under the RBI's guidelines issued on August 06, 2020. The quantum of repayment obligations of the company for FY21 will depend on the approval and terms of the proposed OTR. 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 ~95% in the twelve month period ended October-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).

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

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

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

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- (Under Credit watch with Negative Implications)
Fund-based - ST-EPC/PSC	-	-	-	85.00	CARE A3 (Under Credit watch with Negative Implications)
Non-fund-based - ST-BG/LC	-	-	-	142.10	CARE A3 (Under Credit watch with Negative Implications)
Fund-based - LT-Term Loan	-	-	-	79.40	CARE BBB- (Under Credit watch with Negative Implications)
Fund-based - LT-Working Capital Demand loan	-	-	-	33.62	CARE BBB- (Under Credit watch with Negative Implications)
Fund-based - ST-PC/Bill Discounting	-	-	-	50.00	CARE A3 (Under Credit watch with Negative Implications)

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- (Under Credit watch with Negative Implications)	1)CARE BBB-; Negative (20-Aug-20)	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 (Under Credit watch with Negative Implications)	1)CARE A3 (20-Aug-20)	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 (Under Credit watch with Negative Implications)	1)CARE A3 (20-Aug-20)	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- (Under Credit watch with Negative Implications)	1)CARE BBB-; Negative (20-Aug-20)	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- (Under Credit watch with Negative Implications)	1)CARE BBB-; Negative (20-Aug-20)	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 (Under Credit watch with Negative Implications)	1)CARE A3 (20-Aug-20)	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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