

## Worldwide Tradelinks

November 12, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	33.00	<b>CARE B+; Stable</b> <b>(Single B Plus; Outlook: Stable)</b>	<b>Assigned</b>
<b>Total Facilities</b>	<b>33.00</b> <b>(Rs. Thirty Three crores only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities Worldwide Tradelinks (WT) is constrained by the weak financial risk profile, customer concentration risk and vulnerability of profitability margins to volatility in the raw material prices & forex fluctuations. The rating further remains constrained by the competitive, fragmented and cyclical nature of the industry.

The ratings, however, derive strength from the experienced promoters and semi-integrated nature of operations at a favorable location.

### Rating Sensitivities

Positive rating sensitivities

- Sustainable, significant and profitable scale of operations with a total income of around Rs.120 Cr.
- Improvement in the overall solvency position with overall gearing ratio of below 2x and total debt to GCA ratio of below 20x.

Negative rating sensitivities

- Significant decline in income to below Rs.50 Cr. or PBILDT margins below 3%
- Significant write-offs of debtors
- Deterioration in the liquidity profile in the light of Covid-19 pandemic

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Weak financial profile:** The total operating income of the firm in the FY17-FY20 (refers to the period April 01 to March 31) period has declined from Rs.151.28 Cr. in FY17 to Rs.87.19 Cr. in FY20 (Provisional). The same was mainly attributable to a year-on-year decline in export income. In FY19, the firm also witnessed a decline in domestic demand. The PBILDT and PAT margins of the firm, however, improved from 2.43% and 0.33% respectively, in FY17 to 5.59% and 0.94% respectively, in FY20 (Prov.). The same was on account of lowering of product development charges, sales of better margin yielding product types, and lower commissions and discounts offered to the customers. The capital structure of the firm remained leveraged with long term debt to equity and overall gearing ratios of 0.77x and 3.43x respectively, as on March 31, 2020 (Prov.). The total debt to GCA ratio also remained weak at 34.25x as on March 31, 2020 (Prov.) while the interest coverage ratio stood at a moderate level of 1.31x in FY20 (Prov.). In FY21, the firm has achieved an operating income of Rs.54 Cr., till October 22, 2020.

**Customer concentration risk:** The firm's revenue stream is associated with a customer concentration risk with top-five customers contributing ~49% of the total income in FY20 (Prov.) and the top customer alone contributing ~14% of the total income during the year. Any change in the financial performance or procurement policies of the customers will directly impact the performance of WT.

**Susceptibility to raw material price volatility and foreign exchange fluctuation risk:** The primary raw material for the firm is cotton yarn and fibers. Being an agricultural product, its demand supply situation depends on various natural conditions and its price is highly volatile depending on the demand-supply situation in the global markets. Further, the prices of the other raw materials viz. polyester yarn and fibers also remain dependent on crude oil which has also remained volatile in the past. In a competitive scenario, the firm has limited ability to pass on fluctuations to the customers. Furthermore, in FY20, the firm received ~41% of its income from exports while the firm did not have any imports. The firm occasionally enters into derivative contracts and hedges its exposure to some extent. However, since the exposure is not completely hedged, the profitability margins remain susceptible to forex fluctuations.

**Competitive, fragmented and cyclical nature of the industry:** Textile industry as a whole remains cyclical and vulnerable to various factors such as fluctuations in prices of raw materials, economic cycles, mobilization of adequate workforce and

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

changes in government policies for overall development of the textile industry. Any significant changes in such factors will have a direct impact on the business operations of the firm. The firm also operates in a highly fragmented garments manufacturing industry where in the presence of large number of entities in the unorganized sector and established players in the organized sector limits the bargaining power with customers. Furthermore, the firm is also exposed to competitive pressures from players situated in China and Bangladesh.

#### **Key rating strengths**

**Experienced promoters:** WT was incorporated in 2010 by Mr. Rakesh Kumar Garg and his father Mr. Luddar Mal Garg. The current partners of the firm are Mr. Rakesh Garg and his wife Mrs. Manju Garg. Both the partners hold an industry experience of around 1.5 decades. This has enabled established relationships with the clients as well as suppliers. Domestically, the firm mainly caters to reputed clients and nearby garment players while it has established export clients as well. Over the years, the promoters' relatives have infused unsecured loans to support various requirements of the firm. The same stood at Rs.5.22 Cr., as on March 31, 2020 (Prov.). An additional Rs.0.95 Cr. was also infused as partner's capital in FY20 (Prov.).

**Favorable location and semi-integrated nature of operations:** WT operates in Ludhiana, which is a well-established hub of textiles. The firm benefits from the location advantage in terms of easy accessibility to a large customer base located in Ludhiana and ample availability of raw materials. WT's manufacturing unit is semi-integrated with facilities for knitting, cutting, stitching and finishing available in-house.

#### **Liquidity: Stretched**

The operating cycle of the firm remained elongated at ~141 days as on March 31, 2020 (Provisional). In addition, the firm has old debtors aggregating Rs.39.10 Cr. (some outstanding since FY17) which are under litigation. Correspondingly, an almost equal amount of creditors have also been deferred by the firm. Any major write-off in the debtors will impact the profitability and liquidity profile of the firm and therefore will remain a key rating sensitivity. The sanctioned working capital limits remained ~95% utilised on an average in the last twelve months ended September-2020 while WT has also availed additional loans of Rs.9 Cr., extant RBI guidelines for its working capital needs. The firm had also availed the moratorium offered by RBI in light of Covid-19 pandemic for its working capital obligations due in the March-2020 to August-2020 period and during May-2020 and June-2020 for its term debt obligations. The current and quick ratios of the firm remained moderate at 1.38x and 1.26x respectively, as on March 31, 2020 (Prov.). WT has a repayment obligation of Rs.1.17 Cr. in FY21 which is proposed to be met through the internal accruals. Any deterioration in the liquidity position, especially in light of the Covid-19 pandemic, will remain a key rating monitorable.

**Analytical approach:** Standalone.

#### **Applicable Criteria**

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

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

[CARE's policy on default recognition](#)

[CARE's methodology for manufacturing companies](#)

[Liquidity analysis of non-financial sector entities](#)

[Rating Methodology for Cotton Textile Manufacturing](#)

#### **About the Firm**

Worldwide Tradelinks (WT) was incorporated as a partnership firm in 2010. Since then, the firm is engaged in the manufacturing of knitted readymade garments at its single manufacturing facility in Ludhiana, Punjab. The firm is operating with an installed capacity of 15000 pieces per day as on March 31, 2020. WT sells to reputed domestic players and other Ludhiana based players. The firm also exports its products and derived ~41% of the total income in FY20 (Prov.) from export sales. The firm deals with traders and dealers in UAE, USA, Europe etc. who further sell to various garment brands. WT has been awarded the status of 'Star Export House' by the Directorate General of Foreign Trade (DGFT). The product profile of the firm includes cotton-polyester blended gents T-Shirts, gents shirts, gents lowers, boys T- Shirts, ladies T-Shirts, babysuits etc. The firm has Worldwide Industries Limited as its group concern which is currently defunct.

**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 (P)
Total income	112.34	87.19
PBILDT	4.32	4.87
PAT	0.70	0.82
Overall gearing (times)	3.89	3.43
Interest coverage (times)	1.33	1.32

\*A: Audited, P: Provisional

**Status of non-cooperation with previous CRA:** India Ratings has conducted the review on the best available information and classified WT as not cooperating vide its press release dated May 12, 2020.

**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	-	-	May-2022	3.00	CARE B+; Stable
Fund-based - LT-Working Capital Limits	-	-	-	30.00	CARE B+; 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 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-Term Loan	LT	3.00	CARE B+; Stable	-	-	-	-
2.	Fund-based - LT-Working Capital Limits	LT	30.00	CARE B+; Stable	-	-	-	-

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** NA

**Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT-Working Capital Limits	Simple

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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