

No. CARE/CHBO/RR/2020-21/1040

Mr. Sanjay Kedia

Chief Financial Officer
Winsome Textile Industries Limited
SCO 191-192, Sector-34-A,
Chandigarh – 160022,
India

September 01, 2020

Dear Sir,

Credit rating of Winsome Textile Industries Limited for Rs.441.50 cr.

Please refer to our letter dated August 17, 2020 on the above subject.

2. The rationale for the rating is attached as an **Annexure-I**.

3. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by September 02, 2020, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,



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Encl.: As above

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Annexure - I
Rating Rationale
Winsome Textile Industries Limited

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	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

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

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

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 yarns.

Moderate financial risk profile

The total operating income of the company declined by ~8% in FY20 owing to lower demand caused by the 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 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

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proportion of mélange yarn (associated with higher margins) sold remained lower for most part of the year. The company reported a 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 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 as on March 31, 2020, while the interest coverage ratio also deteriorated in FY20. The capital structure of the company, as marked by long-term debt-to-equity and overall gearing ratios, however, improved as on March 31, 2020 on account of scheduled repayment of term loans availed by the company.

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.

Prospects

Cotton yarn demand in India remained sluggish during the FY19 at 2,933 million kg registering a decline of about 1.4% y-o-y. However, export demand witnessed a strong double-digit growth of 14.7% y-o-y and stood at 1,261 million kg in FY19. The export demand however fell by nearly 16% in FY20 mainly due to the uncompetitive prices along with the spread of COVID-19 which led to lockdown and stagnant economic activity in majority of the export destinations.. Going forward, in FY21, the revenues for cotton yarn manufacturers are expected to decline on account of lower prices of cotton expected in FY21, the lockdown imposed by the Government of India and lower discretionary spending by the consumers. However, the competitive prices of cotton currently and higher demand from the export destinations, is expected to counter the lower domestic demand. In the short to medium term, retail sales are expected to be impacted in both domestic & export markets, due to the outbreak of Covid-19, which has led to closure of malls/ retail outlets. However, the demand is expected to pick up gradually on the back of rise in disposable income and increased usage of plastic money leading to impulsive buying among the Indian consumers. WTIL's performance will remain exposed to the inherent volatility in cotton

prices and demand prospects in the domestic as well as the export markets. Furthermore, WTIL's ability to profitably scale up its operations and improve its solvency position will determine its prospects.

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 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. The company does not have any major capex plans. 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

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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).

Financial Performance

	(Rs. crore)		
For the period ended / as at March 31,	2018 (12m, A)	2019 (12m, A)	2020 (12m, A)
Working Results			
Net Sales	664.72	695.85	624.69
Total Operating income	699.52	724.18	664.00
PBILDT	79.66	86.44	66.80
Interest	48.35	48.39	48.78
Depreciation	24.71	23.74	22.46
PBT	6.88	14.31	-4.44
PAT (after deferred tax)	4.96	12.12	-2.93
Gross Cash Accruals	34.28	36.25	24.16
Financial Position			
Equity Share Capital	19.82	19.82	19.82
Net worth	176.21	189.39	186.73
Total capital employed	550.08	525.02	492.94
Key Ratios			
<i>Growth</i>			
Growth in Total income (%)	-2.16	3.51	-8.30
Growth in PAT (after deferred tax) (%)	-59.79	37.67	-124.16
<i>Profitability</i>			
PBILDT/Total Op. income (%)	11.39	11.94	10.06
PAT (after deferred tax)/ Total income (%)	0.71	1.67	-0.44
ROCE (%)	5.31	7.05	-1.56
<i>Solvency</i>			
Debt Equity ratio (times)	0.70	0.44	0.31
Overall gearing ratio(times)	2.48	2.14	2.00
Interest coverage(times)	1.65	1.79	1.37
Term debt/Gross cash accruals (years)	3.57	2.29	2.40
Total debt/Gross cash accruals (years)	12.76	11.16	15.49
<i>Liquidity</i>			
Current ratio (times)	0.91	0.92	0.86
Quick ratio (times)	0.44	0.46	0.39
<i>Turnover</i>			
Average collection period (days)	67	63	67
Average inventory (days)	131	109	133
Average creditors (days)	104	93	107
Operating cycle (days)	94	80	92

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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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-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-; 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)

**Issuer did not cooperate; Based on best available information*

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Annexure-3: Details of Rated Facilities

Long-term facilities

1.A.

(Rs. crore)

Sr. No.	Lender	Rated Amount	Debt Repayment Terms
1	UCO Bank	17.51*	32 quarterly installments
2	Bank of Baroda (Earlier Vijaya Bank)	6.25*	32 quarterly installments
3	Bank of Baroda	2.19*	32 quarterly installments
4	Union Bank	6.25*	Quarterly installments
5	Union Bank	12.01*	Quarterly installments
6	Central Bank Of India	13.21*	32 quarterly installments
7	UCO Bank (Covid Loan)	8.39	18 equal monthly installments after moratorium of 6 months
8	Bank of Baroda(Earlier Vijaya Bank) (Covid Loan)	1.73	18 equal monthly installments after moratorium of 6 months
9	Bank of India (Covid Loan)	2.31	18 equal monthly installments after moratorium of 6 months
10	Central Bank of India (Covid Loan)	3.00	18 equal monthly installments after moratorium of 6 months
11	Canara Bank (Covid Loan)	3.11	18 equal monthly installments after moratorium of 6 months
12	Union Bank(Earlier Andhra Bank) (Covid Loan)	3.44	18 equal monthly installments after moratorium of 6 months
	Total	79.40	

*Outstanding

1.B. Fund Based limits

(Rs. crore)

Sr. No.	Name of Bank	Fund-based Limits		
		CC*	WCDL*	Total Fund-based
1	Bank of Baroda (Earlier Vijaya Bank)	4.95	-	4.95
2	UCO Bank	15.28	22.72	38.00
3	Union Bank of India	5.60	5.26	10.86
4	Bank Of India	11.44	-	11.44
5	Canara Bank	5.86	5.64	11.50
6	Central Bank Of India	8.25	-	8.25
	TOTAL	51.38	33.62	85.00

*CC=Cash credit; WCDL=Working Capital Demand Loan

Total Long-term Bank Facilities: Rs.164.40 crore

2. Short-term facilities

2. A. Fund-Based Limits

(Rs. crore)

Sr. No.	Name of Bank	Fund Based Limits		
		EPC/PCFC*	FBD/FBP*	Total fund-based limits
1	Union Bank of India	13.18	10.34	23.52
2	UCO Bank	29.00	16.85	45.85
3	Bank Of India	11.20	0.49	11.69

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Sr. No.	Name of Bank	Fund Based Limits		
4	Canara Bank	11.14	8.55	19.69
5	Bank of Baroda (Earlier Vijaya Bank)	7.50	5.00	12.50
6	Central Bank Of India	12.98	8.77	21.75
	TOTAL	85.00	50.00	135.00

*EPC=Export packing credit; PCFC=Packing credit in foreign currency; FBD= Foreign Bill Discounting; FBP= Foreign Bill Purchase

2.B. Non-Fund-based Limits

(Rs. crore)

Sr. No.	Name of Bank	Non Fund Based Limits	
		LCs/ BGs*	Total non fund-based limits
1	Union Bank of India	30.63	30.63
2	UCO Bank	46.71	46.71
3	Bank Of India	13.39	13.39
4	Canara Bank	15.88	15.88
5	Bank of Baroda (Earlier Vijaya Bank)	12.00	12.00
6	Central Bank Of India	23.49	23.49
	TOTAL	142.10	142.10

*LC=Letter of credit; BG=Bank guarantee

Total Short-term facilities: Rs.277.10 crore

Total Bank Facilities: Rs.441.50 crore

Annexure-4: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 5: 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. 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.

Contact us

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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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