

June 30, 2023

Oswal Woollen Mills Limited: Ratings reaffirmed; rating reaffirmed and withdrawn for commercial paper

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-Based Cash Credit	350.00	350.00	[ICRA]A (Stable) reaffirmed
Long-term Fund-Based Term Loans	99.27	99.27	[ICRA]A (Stable) reaffirmed
Long-term Non-Fund-Based*	(14.0)	(14.0)	[ICRA]A (Stable) reaffirmed
Long-term Unallocated	45.73	45.73	[ICRA]A (Stable) reaffirmed
Short-term Non-Fund-Based	130.00	130.00	[ICRA]A2+ reaffirmed
Commercial Paper	50.00	50.00	[ICRA]A2+ reaffirmed and withdrawn
Total	675.00	675.00	

*Instrument details are provided in Annexure-I; *sub-limit of cash credit

Rationale

The rating reaffirmation reflects Oswal Woollen Mills Limited's (OWM or the company) adequate operational and financial risk profiles, aided by its diversified and large scale of operations across woolen and denim textile businesses. Further, the ratings also factor in the company's six-decade long track record in the textile industry, which has facilitated the creation of a widespread distribution network. The company reported a revenue decline in FY2023 due to performance pressure witnessed in its denim and cotton spinning divisions due to lower demand and adverse spinning industry scenario, even as its woolen division's performance remained healthy. ICRA notes that the high cotton fibre prices during the year and lower scale of operations resulted in a contraction in the company's profitability and debt protection metrics. While scenario in the spinning industry is expected to marginally improve in the current financial year following a stabilisation of raw material prices, demand-side pressure is expected to continue for the denim segment, which is expected to drag the overall revenues for the company in FY2024 as well.

ICRA, however, continues to draw comfort from OWM's adequate liquidity position, supported by sufficient undrawn working capital limits and unsecured loans from the promoters, which are proposed to be retained in the company. A part of the unsecured loans has been repaid and the company has raised ~Rs. 46 crore in the form of equity and preference share capital in FY2023, thus improving the capital profile of the company. The company also enjoys operational and financial flexibility as a part of the Nahar Group based out of Ludhiana (Punjab), which is one of the largest textile groups in the country with vertically integrated operations from spinning to garmenting. This apart, the regular unencumbered rental income, sales proceeds from real estate projects and power plants continue to support the company's cash flows and liquidity position.

The ratings continue to be constrained by the weak demand environment in the denim market, leading to an expected subdued revenue growth and operating margins for OWM in FY2024. The same is because of the seasonal nature of cotton availability.

ICRA has withdrawn the [ICRA]A2+ rating assigned to the commercial paper (CP) programme of OWM on the basis of the withdrawal request received from the company along with a confirmation that no amount was outstanding against the CP as on the date of the request for withdrawal of the rating.

Key rating drivers and their description

Credit strengths

Diversified presence across textile, real estate and power businesses, with large capacities in textiles – OWM has emerged as a large domestic denim manufacturer, besides being one of the oldest and largest manufacturers of worsted woollen yarn in North India. Although its revenue contribution declined from ~54% in FY2015 to 38% in FY2023 amid pressure on performance of the denim segment in the recent years, it remains a major contributor to the company's revenues. The company's woollen division became the largest business segment, with ~42% revenue share in FY2023, owing to healthy demand for woollen textiles. The company also derives a sizeable income from the cotton spinning and renewable energy segments. In addition, OWM owns a commercial property in Gurgaon (Haryana).

Proven track record with established market presence and distribution network – The six-decade-long track record of OWM in the textile sector (from 1949) has facilitated the establishment of a strong market presence and a distribution network, supporting the expansion of the Nahar Group over the years into new product segments, like denim and branded apparels, under the aegis of OWM and its sister concerns.

Operational and financial flexibility for being a part of the Nahar Group – OWM is a part of the Ludhiana-based Nahar Group, one of the largest and oldest textile groups in the country with vertically integrated operations from spinning and garmenting to retailing. Other companies in the Nahar Group include Monte Carlo Fashions Limited (MCFL), Nahar Industrial Enterprises Limited (NIEL), Nahar Spinning Mills Limited, Nahar Capital and Financial Services Limited¹, Nahar Poly Films Limited and Vanaik Spinning Mills Limited. OWM's financial flexibility is corroborated by the regular need-based fund infusion by the promoter group in the recent years, which has helped the company maintain a comfortable liquidity profile. Though there is a firm commitment to retain only a part of these unsecured loans, there is a stated intent to maintain a comfortable liquidity cushion in the company (a part of the unsecured loans has been repaid and the company has raised ~Rs. 46 crore in the form of equity and preference share capital in FY2023) and, thus, retain these unsecured loans till the time the company's performance revives. ICRA notes that any major decline in the level of unsecured loans from the current level can adversely impact the company's liquidity profile and hence will be a rating sensitivity.

Credit challenges

Moderation in financial profile, but coverage ratios to remain comfortable despite some pressure on earnings – The company reported a ~11% revenue decline in FY2023 due to performance related pressure witnessed in its denim and cotton spinning divisions amid lower demand and adverse scenario in the spinning industry, even as the woollen division's performance remained healthy. High cotton fibre prices during the year and lower scale of operations resulted in a contraction in the company's profitability as well with the operating margin declining to 5.5% in FY2023 from 9.8% in FY2022. The debt coverage indicators also moderated with an interest cover of 2.5 times (4.0 times in FY2022) and Total Debt/ OPBDITA of 4.8 times (3.5 times in FY2022) in FY2023. While the condition of the spinning industry is expected to marginally improve in the current financial year, following stability of raw material prices, demand-side pressure is expected to continue for the denim segment, which is likely to drag the overall revenues for the company in FY2024 as well. The company is expected to report a revenue dip of ~12% in FY2024. However, the profitability is expected to improve marginally by ~200 basis points following stability of raw material prices and higher composition of woollen fabrics in the revenue mix. This should also lead to an improvement in the debt protection metrics with an interest cover of 3.7 times and Total Debt/ OPBDITA of 3.2 times in FY2024.

Cyclical in denim industry – The denim industry witnesses inherent cyclical with periods of excess market capacity and tight demand-supply situations. An oversupply situation exerts pressure on the company's profitability by affecting volumes

¹ ICRA has an [ICRA]A1+ rating outstanding for Nahar Capital and Financial Services Limited. For details, please refer to ICRA's website: www.icra.in.

and pricing power, in line with the industry trends. Denim contributes a significant share to the company's overall revenues, despite a fall in the recent years. The dip in its share was witnessed in FY2023 as well to 38% from 49% in FY2022 due to low demand.

Working capital intensive operations with elongated receivables and high inventory holdings – OWM's operations are working capital intensive with year-end NWC/OI consistently remaining above 35%. This is because of high inventory levels and credit sales to the customers. The company allows 30-60 days of credit to its customers. The credit period for purchase of raw materials is limited as the payments for purchase of cotton, cotton yarn and acrylic have to be made within 7-15 days. Moreover, the wool is imported against sight letter of credit or a credit period of 90-180 days. The company gets credit of 45-60 days for purchase of dyes, chemicals and other consumables. The inventory levels are high as OWM stocks wool for 60~90 days, while cotton stocking depends on the harvest season. In addition, cotton yarn is stocked for the denim division to cover production for the next 20-30 days, which increases the inventory levels.

Profitability susceptible to volatility in cotton prices – OWM's denim business is backward integrated with an in-house spinning capacity, which is sufficient to meet 80–85% of its cotton yarn requirement. However, only 60-70% of the cotton yarn requirement is met by in-house production as all varieties of yarn are not manufactured in-house. Consequently, the surplus production of yarn, which is not required in-house, is sold in the market. Similarly, yarn that is not manufactured in-house is purchased from the market. The spinning division stocks cotton during the harvest season from October to March to meet a significant portion of its requirements for the remaining year. This cotton stockpiling exposes the company to fluctuations in cotton and yarn prices during the non-harvest season as OWM's procurement cost is fixed, while yarn realisation fluctuates with cotton prices, which are driven by both domestic as well as global factors.

Liquidity position: Adequate

OWM's liquidity position is likely to remain adequate, with fund flow from operations expected to remain sufficient to fund margin requirements for the working capital, planned capital expenditure and scheduled debt repayments. The company's adequate liquidity position is corroborated by its sizeable undrawn working capital facilities over the year, averaging ~Rs. 200 crore for the 12-month period ended in May 2023. OWM's liquidity position remains supported by unsecured loans infused by the promoters, a part of which is proposed to be retained in the company. ICRA notes that any major reduction in the level of unsecured loans can impact the company's liquidity profile and hence will be a key monitorable.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company registers a sustained healthy growth in its scale of operations together with improvement in profit margins. Specific metrics for ratings upgrade include ROCE of more than 16% on a sustained basis.

Negative factors – ICRA could downgrade the ratings in case of sustained pressure on the company's operating performance, or if any stretch in the working capital cycle or sizeable capex or withdrawal of unsecured loans adversely impacts the company's credit metrics and liquidity position. Specific metric includes an interest cover of less than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Indian Textiles Industry – Spinning Indian Textiles Industry – Fabric Making Policy on Withdrawal of Credit Ratings
Parent/Group support	Group: Nahar Group The ratings assigned to OWM factors in the high likelihood of its promoters/ promoter group, extending financial support to it, out of the need to protect their reputation from the consequences of a Group entity's distress. There also exists a consistent track record of the promoter group having extended timely financial support to OWM to maintain comfortable liquidity during any need
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Incorporated in 1949, OWM manufactures worsted woollen yarn, cotton yarn and denim fabric. The company's manufacturing units in Ludhiana (Punjab), Lalru (near Chandigarh) and Bhopal (Madhya Pradesh) have a combined capacity of ~41,588 spindles for worsted woollen spinning, ~70,128 spindles and 2,784 rotors for cotton spinning and ~396 looms for weaving denim fabric. Besides, the company has presence in the renewable power space (13.2 MW of wind energy and solar projects across states), and the real estate segment. It owns a commercial property in Gurgaon (Haryana), which provides regular rental income.

OWM is a part of the Ludhiana-based Nahar Group, which was incorporated by Mr. Vidya Sagar Oswal, father of Mr. Jawahar Lal Oswal, the present Chairman and Managing Director of the company. The other companies in the Nahar Group include MCFL, NIEL, Nahar Spinning Mills Limited and Nahar Capital and Financial Services Limited.

Key financial indicators

Consolidated	FY2021	FY2022	FY2023
	Audited	Audited	Provisional
Operating income	869.5	1400.5	1252.6
PAT	(54.7)	67.3	6.5
OPBDIT/OI	4.6%	9.8%	5.5%
PAT/OI	(6.3%)	4.8%	0.5%
Total outside liabilities/Tangible net worth (times)	1.3	1.2	0.8
Total debt/OPBDIT (times)	10.7	3.5	4.8
Interest coverage (times)	1.0	4.0	2.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
				Jun 30, 2023	Mar 31, 2023	Jun 09, 2022	Aug 20, 2021	Aug 21, 2020
1 Fund-Based Cash Credit	Long Term	350.00	--	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)
2 Fund-Based Term Loans	Long Term	99.27	93.9	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)
3 Bank Guarantee*	Long Term	(14.0)	--	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)
4 Unallocated	Long Term	45.73	--	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)
5 Letter of Credit	Short Term	130.00	--	[ICRA]A2+;	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
6 Letter of Credit/ Packing Credit^	Short Term	-	--	-	-	-	[ICRA]A2+	[ICRA]A2+
7 Letter of credit/ Bank Guarantee^	Long Term/ Short Term	-	--	-	-	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Negative)/ [ICRA]A2+
8 Commercial Paper	Short Term	50.00	--	[ICRA]A2+ Withdrawn	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

*sub-limit of cash credit; ^interchangeable

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-Based Cash Credit	Simple
Long-term Fund-Based Term Loans	Simple
Long-term Non-Fund-Based	Very Simple
Long-term Unallocated	Not applicable
Short-term Non-Fund-Based	Very Simple
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-Based Cash Credit	NA	NA	NA	350.00	[ICRA]A (Stable)
NA	Long-term Fund-Based Term Loans	FY2012	NA	FY2028	99.27	[ICRA]A (Stable)
NA	Long-term Non-Fund-Based*	NA	NA	NA	(14.0)	[ICRA]A (Stable)
NA	Long-term Unallocated	NA	NA	NA	45.73	[ICRA]A (Stable)
NA	Short-term Non-Fund-Based	NA	NA	NA	130.00	[ICRA]A2+
Not issued	Commercial Paper	NA	NA	NA	50.00	[ICRA]A2+ reaffirmed and withdrawn

Source: Company; *sub-limit of cash credit

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis- Not applicable

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Branches



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