

August 22, 2024

Oswal Woollen Mills Limited: Ratings downgraded

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	320.00	[ICRA]A- (Stable) downgraded from [ICRA]A(Stable)
Long-term Fund-Based Term Loans	99.27	57.00	[ICRA]A- (Stable) downgraded from [ICRA]A(Stable)
Long-term Non-Fund-Based*	(14.0)	(14.0)	[ICRA]A- (Stable) downgraded from [ICRA]A(Stable)
Long-term Unallocated	45.73	63.00	[ICRA]A- (Stable) downgraded from [ICRA]A(Stable)
Short-term Non-Fund-Based	130.00	110.00	[ICRA]A2+ reaffirmed
Total	625.00	550.00	

*Instrument details are provided in Annexure-I

Rationale

The rating revision considers the weakening financial profile of Oswal Woollen Mills Limited (OWM) in FY2024 and FY2025, due to the subdued performance of its denim and cotton spinning divisions. OWM's spinning segment remained under pressure in FY2024, driven by declining yarn realisations and high cotton prices, which contracted contribution margins. Its denim division also reported losses amid a weak demand environment, leading to the closure of OWM's Punjab unit. These factors led to a steep year-on-year (YoY) decline in revenues and net losses in FY2024.

Demand-side pressures are expected to continue for the denim segment, impacting overall revenues and profitability for the company in FY2025. While contribution levels in the spinning industry are expected to improve in the current financial year due to the stabilisation of raw material prices, the extent of improvement amid competitive pressures shall remain a key rating monitorable. This, coupled with OWM's high working capital intensity of operations, is expected to result in a moderate financial profile. The ratings also factor in the cyclical nature associated with the denim segment, marked by periods of overcapacity and the susceptibility of profitability margins to raw material price fluctuations.

ICRA, however, continues to derive comfort from OWM's adequate liquidity position, supported by sufficient undrawn working capital limits and unsecured loans from promoters. 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 operations. Besides, the regular unencumbered rental income, as well as income from the power segment and expected proceeds from the sale of assets of the Punjab plant, shall support the company's cash flows and liquidity position in FY2025. 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 Stable outlook on the long-term rating reflects ICRA's opinion that the liquidity position of the company shall remain adequately supported by its diversified profile and stable cash flows from other segments, including rental and power.

Key rating drivers and their description

Credit strengths

Proven track record with established market presence and distribution network – The six-decade-long track record of OWM in the textile sector (operating since 1949) resulted in a strong market presence and a distribution network. Such factors led to Nahar Group’s expansion over the years into new product segments like denim and branded apparel with the support 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 across spinning, garmenting and retailing functions. Other companies within 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 regular need-based fund infusions by the promoter group in recent years, which supported the company in maintaining a comfortable liquidity profile. There is no firm commitment to retain these unsecured loans. However, there is a stated intent to maintain a comfortable liquidity cushion in the company (a part of the unsecured loans has been repaid in FY2024 and unsecured loans stood at Rs. 40 crore as of March 2024).

Diversified presence across textile, real estate and power businesses; steady cash flows from other segments support the liquidity position – 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. At present, the company’s woollen division is the largest business segment, accounting for ~46% of revenues in FY2024. 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). This steady income from rental and power assets provides a regular revenue stream, ensuring healthy liquidity cushion for the company. The company also closed its loss-making denim unit in Punjab in FY2024 and intends to sell off its assets in the current financial year. Sale proceeds from the same shall provide additional support to cash flows in FY2025.

Credit challenges

Moderated financial profile in FY2024, performance likely to be subdued in current fiscal as well – The company reported a ~28% YoY revenue decline in FY2024 due to decreased revenues from its cotton segment (denim and spinning division) as well as lower revenues from the woollen segment due to some moderation in demand. The cotton spinning division’s performance was impacted amid a correction in yarn realisations, high cotton prices and lower cotton demand. Its denim division also reported losses due to a weak demand environment, resulting in the closure of OWM’s Punjab unit. These factors adversely impacted the operating profit margins, which declined to 2.8% in FY2024 from 5.6% in FY2023, leading OWM to report net losses. Consequently, its debt coverage indicators had weakened, with interest cover declining to 0.9 times in FY2024 (as against 2.2 times in FY2023) and total debt vis-à-vis operating profit deteriorating to 12.9 times as on March 31, 2024. The demand conditions in the spinning industry are expected to marginally improve in the current financial year, following the stabilisation of raw material prices. However, the demand-side pressure is expected to continue for the denim segment, which is likely to impact the overall revenues and profits of the company in FY2025. This, coupled with OWM’s high working capital intensity of operations, is expected to result in a moderate financial profile.

Cyclicality in denim industry – The denim industry experiences inherent cyclicality, with periods of excess market capacity and tight demand-supply situations. Oversupply situation exerts pressure on the company’s profitability by affecting volumes and pricing power, in line with industry trends. Despite the decline in recent years, denim continues to contribute a significant share to the company’s overall revenues.

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.

Working capital-intensive nature of operations – OWM’s operations are working capital intensive, with year-end net working capital intensity (net working capital vis-à-vis operating income) consistently remaining above 35% due to high inventory levels. 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. The company also offers 30-60 days of credit to its customers. However, the credit period for purchasing raw materials is limited, as payments for cotton, cotton yarn and acrylic must be made within 7-15 days. Moreover, wool is imported against a sight letter of credit or a credit period of 90-180 days. The company receives 45-60 days of credit for purchasing dyes, chemicals and other consumables.

Profitability susceptible to volatility in cotton prices – OWM’s denim business is backward integrated with an in-house spinning capacity 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 not all varieties of yarn are manufactured in-house. Consequently, the surplus yarn production that is not required in-house is sold in the market, while yarn varieties not produced in-house are 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 influenced 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 be sufficient to fund margin requirements for the working capital, planned capex of ~Rs. 10-15 crore and scheduled debt repayments of Rs. 23 crore in FY2025. The company’s adequate liquidity position is corroborated by its undrawn (vis-à-vis DP) working capital facilities over the year, averaging ~Rs. 70 crore for the 12-month period ending May 2024. OWM’s liquidity position remains supported by unsecured loans infused by the promoters and stable cash flows generated by its power and rental segments.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company registers sustained healthy growth in its scale of operations along with improvement in profit margins.

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, sizeable capex or withdrawal of unsecured loans adversely impacts the company’s credit metrics and liquidity position. Specific metrics for the downgrade include total outside liabilities/tangible net worth (TOL/TNW) exceeding 1.5 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
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of the firm.

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, ~49,798 spindles and 2,784 rotors for cotton spinning and 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

OWM	FY2023	FY2024 (Provisional)
Operating income	1244.5	894.3
PAT	15.3	-31.9
OPBDIT/OI	5.6%	2.8%
PAT/OI	1.2%	-3.6%
Total outside liabilities/Tangible net worth (times)	0.9	0.8
Total debt/OPBDIT (times)	5.1	12.9
Interest coverage (times)	2.2	0.9

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

Current rating (FY2025)				Chronology of rating history for the past 3 years			
Instrument	Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
			August 22, 2024		Mar 31, 2023	Jun 09, 2022	Aug 20, 2021
1 Fund-Based Cash Credit	Long Term	320.00	[ICRA]A-(Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A-(Stable)
2 Fund-Based Term Loans	Long Term	57.00	[ICRA]A-(Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A-(Stable)
3 Bank Guarantee*	Long Term	(14.0)	[ICRA]A-(Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A-(Stable)
4 Unallocated	Long Term	63.00	[ICRA]A-(Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A-(Stable)
5 Letter of Credit	Short Term	110.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
6 Letter of Credit/Packing Credit^	Short Term	-	-	-	-	-	[ICRA]A2+

7	Letter of credit/ Bank Guarantee^	Long Term/ Short Term	-	-	-	-	-	[ICRA]A- (Stable)/ [ICRA]A2+
8	Commercial Paper	Short Term	-	-	[ICRA]A2+ Withdrawn	[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

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	320.00	[ICRA]A- (Stable)
NA	Long-term Fund-Based Term Loans	FY2012	NA	FY2028	57.00	[ICRA]A- (Stable)
NA	Long-term Non-Fund-Based	NA	NA	NA	(14.0)	[ICRA]A- (Stable)
NA	Long-term Unallocated	NA	NA	NA	63.00	[ICRA]A- (Stable)
NA	Short-term Non-Fund-Based	NA	NA	NA	110.00	[ICRA]A2+

Source: Company

[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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