

January 08, 2018

Partap Spintex Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term fund based	88.36	[ICRA]BBB+ (Stable); Assigned [ICRA]A2; Assigned
Long-term/Short-term non fund based	1.64	[ICRA]BBB+ (Stable); Assigned [ICRA]A2; Assigned
Total	90.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) and short-term rating of [ICRA]A2 (pronounced ICRA A two) on the Rs. 90.00-crore¹ of bank facilities of Partap Spintex Private Limited (PSPL)². The outlook on the long-term rating is stable.

Rationale

ICRA's ratings factor in the established market position of the Partap Spintex (owned by Mr. Surinder Paul Bansal) in the denim fabric manufacturing industry with annual production capacity of ~70 million square meters per annum (MMPA), its integrated nature of operations and healthy financial profile. The company's sustained contribution margins in the past five years (FY2013 to FY2017) coupled with lean working capital cycle and low cost per loom have helped in maintaining healthy return on the capital employed at ~20%. PSPL has an established distribution network and has registered revenue growth of ~18% in FY2017 supported by capacity addition. The financial profile of the company is comfortable marked with healthy profit margins which along with a moderate gearing of 1.0 times as on March 31, 2017 result in satisfactory debt coverage indicators. The scale of operations as well as accruals of the company are expected to increase FY2018 onwards as the expansion projects have been completed and production levels have increased.

The ratings are however constrained by the inherent cyclicity associated with the denim industry as well as increasing capacity in the domestic denim industry. ICRA's ratings further take a note of low current ratio of PSPL due to regular capex in the past five years from its net cash accruals though its expected to improve going forward. Furthermore, the company has replaced some of the short-term working capital borrowings with longer tenure corporate loans which are likely to provide support the liquidity of the company.

The company's ability to scale up the production of the newly commenced capacity in the denim plant along with efficient use of its captive yarn manufacturing capacity would be key rating sensitivities. Any sizable debt funded capex, beyond the level envisaged as well as further moderation in margin will be the key monitorables.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- **Long and established track record of promoters in the denim manufacturing industry:** The promoters of the Partap Group (owned by Mr. Surinder Paul Bansal) have extensive experience in the textile industry. The Group commenced its first spinning plant in Maur Mandi (Punjab) in the FY2006 with plant capacity of 6500MTPA. Later, the group moved forward in the value chain and commenced its first denim plant at Mohra, Ambala in the year 2010 with installed capacity of 10MMPA. Gradually, the company expanded its denim manufacturing capacity to 70MMPA as on October'2017
- **Benefits derived from increasing scale of operations, integrated operations, established relations with customers:** The company has network of ~80 distributors spread across India. These distributors are dealing with PSPL for the past 5-6 years and feeding the denim fabrics to some of the key denim processing clusters such as Delhi-NCR, Calcutta, Ahmadabad and Maharashtra. The established relations with the distributors have helped the company in increasing its revenue with a CAGR of ~15% in the denim fabrics during the past five years. PSPL has been benefitting from its integrated operations with ~70-80% of yarn requirement is met through in-house spinning capacity (group companies). This has been helping the company in maintaining healthy operating profit margins of ~10-12% in the past five years.
- **Healthy financial profile characterized by comfortable capital structure and debt protection indicators:** The capital structure of PSPL stood comfortable with gearing of 1.0 times as on March 31, 2017 and 1.1 times in the corresponding previous year as well. This coupled with healthy operating profit margins results into comfort debt protection measures with interest coverage of 5.2 times and DSCR of 1.7 times in FY2017. PSPL is consistently generating adequate cash accruals for funding the capital expenditure in the past few years which is keeping the capital structure at a comfortable level with gearing of ~1.0 time.

Credit weaknesses

- **Low current ratio with working capital intensity of ~3-4%:** In the past three years (FY2015 to FY2017), PSPL has expanded its capacity through total capex of ~Rs. 117 crore while it took term loans of ~Rs. 69 crore in this period. This resulted in elongated supplier's credit period in the past couple of years. The company has replaced some of the short-term debt with longer tenure corporate loans and also taken another corporate loan of Rs. 5.0 crore which is expected to support the liquidity in the near to medium term.
- **Profits are susceptible to the fluctuation in the raw material prices:** PSPL manufactures cotton denim fabric where cotton constitutes ~55% of the total cost of production. Hence, the group is exposed to the fluctuation in the prices of cotton lint owing to various reasons such as agro-climatic, and government policies (through minimum support price). The fluctuation in the prices of cotton has affected the operating profit margins of the company in the past.
- **Exposed to volatility in consumer demand, especially during down cycles:** The ratings are however constrained by the inherent cyclicity associated with the textile sector and the prevalent over capacity in the domestic denim industry.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Indian Textiles Industry – Spinning](#)

[Rating Methodology for Indian Textiles Industry – Fabric](#)

About the company

PSPL was incorporated in the year 1989 to undertake the edible oil processing activities. Later in the year 2006, PSPL entered into the textile industry with its first spinning unit in Maur Mandi (Punjab). Further, PSPL has undertaken a step towards forward integration in the supply-chain and commenced a denim fabric manufacturing unit in Mohra, Ambala (Haryana) in the year 2010. The plant was initially setup with a total manufacture capacity of 10 MMPA which was increased to 30 MSMPA in the year 2014. The company is utilizing almost entire spinning capacity for its captive consumption. In the past three and half years (from April'2015 to October'2017), PSPL has expanded its denim manufacturing capacity to 70 MMPA. The company's denim plants are located at Mohra, Ambala (Haryana) and Dholka, Ahmadabad (Gujarat) while its spinning plant is situated at Maur Mandi (Punjab).

On a standalone basis, PSPL reported a net profit of Rs. 14.1 crore on an operating income (OI) of Rs. 350.2 crore in FY2017 compared to a net profit of Rs. 11.7 crore on an OI of Rs. 298.0 crore in the previous year. On provisional basis, PSPL reported net profit of Rs. 7.0 crore and OI of Rs. 289 crore in 8MFY2018 (April'2017 to November'2017) .

Key Financial Indicators-

	FY2016	FY2017
Operating Income (Rs. crore)	298.0	350.2
PAT (Rs. crore)	11.7	14.1
OPBDIT/ OI (%)	12.2%	12.0%
RoCE (%)	19.3%	19.4%
Total Debt/ TNW (times)	1.1	1.0
Total Debt/ OPBDIT (times)	1.8	1.9
Interest coverage (times)	5.5	5.2
NWC/ OI (%)	2.8%	3.5%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital

(Source: PSPL)

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

**Rating history
Table**

S. No.	Instrument	Current Rating (FY2018)		
		Type	Amount Rated (Rs. crore)	Date & Rating
				January 2018
1.	Fund based	Long term/Short term	88.36	[ICRA]BBB+ (Stable) And [ICRA]A2
2.	Non fund based	Long term/Short term	1.64	[ICRA]BBB+ (Stable) And [ICRA]A2

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Cash credit limit	-	-	-	8.00	[ICRA]BBB+ (Stable)
	Cash credit limit	-	-	-	10.00	[ICRA]BBB+ (Stable)
	Term Loan I	2016	~9.00%-10.00%	2023	19.00	[ICRA]BBB+ (Stable)
	Term Loan II	2016	~9.00%-10.00%	2024	22.00	[ICRA]BBB+ (Stable)
	Term Loan III	2016	9.00%	2022	15.00	[ICRA]BBB+ (Stable)
	Corporate Loan	2017	9.00%	2021	10.00	[ICRA]BBB+ (Stable)
	Non fund based	-	-	-	1.64	[ICRA]BBB+ (Stable) & [ICRA]A2
	Unallocated	-	-	-	4.36	[ICRA]BBB+ (Stable) & [ICRA]A2

Source: Partap Spintex Private Limited

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