

September 17, 2019

Banswara Syntex Limited: MA- (Stable) assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Domestic/Export Credit Facility	415.00	415.00	[ICRA]BBB (Stable) reaffirmed
Term loan	177.00	177.00	[ICRA]BBB (Stable) reaffirmed
Letter of credit/bank guarantee	78.00	78.00	[ICRA]A3+ reaffirmed
Fixed deposit	-	30.00	MA- (Stable) assigned
Total	670.00	700.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned/outstanding ratings consider Banswara Syntex Limited's (BSL) healthy utilisation of its large spinning and weaving capacities and integrated nature of its operations with a captive power plant sufficient for its entire power requirements. The ratings also derive comfort from BSL's diversified product portfolio and high share of exports in the sales mix, leading to reduced geographical concentration risks. While assigning the ratings, ICRA has taken into consideration the leading position of BSL in fibre-dyed yarn manufacturing in India and the extensive experience of its promoters in the textile industry. At present, ~50% of the total yarn produced is consumed in-house for fabric manufacturing and the balance is sold in domestic and export markets. The ratings also factor in the steady revenue growth and the improving capital structure on the back of repayment of existing loans. BSL's gearing level has been declining steadily over the years and stood at 1.6 times as on March 31, 2019. Going forward, in the absence of any debt-funded capex, this is likely to improve further.

The ratings, however, are constrained by BSL's low and volatile profitability due to fluctuating input costs and competitive pressures, especially in the export markets. The company's working capital intensity of operations also remains high due to high inventory holding requirement, and keeps its business return indicators under check. The company maintains inventory of three months, which also exposes it to price risk as the price of its key raw material, polyester staple fibre, is linked to crude oil, which has witnessed significant volatility in the past. Besides price risk, the company is also exposed to forex risk as exports account for 40-50% of its total sales. The risk is mitigated to some extent by part-hedging through forward contracts.

The 'Stable' outlook on the [ICRA]BBB rating reflects ICRA's expectation that BSL's long track-record, diversified product portfolio and established market presence in fibre-dyed yarn manufacturing will continue to support healthy utilisation of its installed capacities.

Key rating drivers

Credit strengths

Large spinning and weaving capacities - BSL has 1.6 lakh spindles, which translates into spinning capacities of 36,504 metric tonnes per annum. With 439 looms, the company has large weaving capacity and currently absorbs ~50% of its

total yarn output for fabric manufacturing. The captive yarn availability leads to savings in transportation costs, packing costs and selling costs, and supports its operating profitability. BSL's forward integration into garmenting also increases the extent of value addition and moderates the impact of cyclicity in the spinning industry to some extent.

Steady revenue growth and improving capital structure - BSL's operating income witnessed a steady growth in the last three years to Rs. 1,351 crore in FY2019 from Rs. 1,245 crore in FY2017. This was driven by rise in exports and improved realisations. BSL's capital structure has also improved during this period with gearing declining from 2.3 times as on March 31, 2017 to 1.6 times as on March 31, 2019. Total debt as on March 31, 2019 comprised term loans of Rs. 159.4 crore, fixed deposits of Rs. 32.8 crore and working capital borrowings of Rs. 266.4 crore. A large portion of these term loans is under the Technical Upgradation Funds scheme and is eligible for interest and capital subsidy. Going forward, in the absence of any major debt funded capex, the gearing is likely to improve further owing to repayment of existing term loans.

Diversified product portfolio and healthy export presence – BSL manufactures yarn across a wide count range and varieties which includes polyester yarn, poly-viscous yarn, acrylic yarn, wool yarn etc. The company has well diversified fabric portfolio with presence in stretch based fabrics for suiting and pants, fabrics for jackets and blazers, fancy jacquard fabrics and automotive textile. Furthermore, the company has presence in garment segment with its garmenting facilities located in Surat and Daman. During FY2019, yarn accounted for 40% of BSL's total sales followed by fabric and garments, which contributed 37% and 21% to the company's revenues respectively. Besides improving the extent of value addition, BSL's diversified product portfolio provides flexibility to switch among product offerings, depending upon the demand scenario. ICRA also notes that BSL's healthy export presence, with overseas customers accounting for 44% of its total revenues in FY2019, reduces its geographical concentration risks.

Long track record and experienced management – BSL started its spinning operation in 1976 with 12,500 spindles. Currently, it is one of the largest fibre-dyed yarn manufacturers in India. BSL is promoted by the Toshniwal family, which has over five decades of experience in the textile business. The company's senior management has extensive experience in the entire textile value chain.

Credit challenges

Low and volatile profitability –The volatility in prices of raw materials like polyester staple fibre, pet bottles, acrylic fibre and greasy wool due to their linkages with crude oil and the intense competition in the export markets have kept BSL's profitability under check. Despite having integrated manufacturing setup, BSL's operating margin remained moderate at 8.9% in FY2019. The quarterly trend in profitability also remained volatile, with operating margins fluctuating between 5.9% and 11.9% during the last fiscal.

Working capital intensive operations - BSL's operations are characterised by high working capital intensity with net working capital-to-operating income of 26.6% as of March 31, 2019 due to its business requirement of holding a large inventory (91 days as of March 31, 2019). The inventory levels have remained high historically as the company is required to stock sufficient quantities of raw material to maintain the continuity of operations. Further, a sizeable part of the inventory appears as work-in-progress due to the long manufacturing cycle.

Exposure to forex risks – BSL derives 40-50% of its revenues from the export market but the raw material is procured mainly from domestic suppliers, thus exposing the company to forex risks. While the company currently hedges 40-50% of its exposure through forward contracts on rolling 3-month basis, the company's operations remain exposed to forex risks to the extent of the unhedged portion.

Liquidity position: Adequate

BSL's liquidity position is **adequate** in FY2020. The company has outstanding term loans of Rs. 159.4 crore as in March 31, 2019. Out of this, Rs. 36.3 crore is falling due in FY2020. Apart from this, fixed deposits of Rs. 15.3 crore are maturing in the current fiscal. The company had free cash of Rs. 12.9 crore as on March 31, 2019, which in addition to the expected cash accruals from the business and undrawn working capital limits (to the extent of available drawing power) would be adequate to meet its debt repayment requirements. Absence of any major capex in the near term also provides comfort to BSL's liquidity profile.

Rating sensitivities

Positive triggers – ICRA could upgrade BSL's rating if the company reports substantial improvement in profitability resulting in better-than-anticipated return indicators.

Negative triggers – Negative pressure on BSL's rating could arise in case of any further rise in working capital intensity and/or any unexpected major debt-funded capex weakens its capital structure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Textiles Industry – Fabric Indian Textiles Industry – Spinning
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company:

BSL is a vertically integrated textile mill. It manufactures synthetic blended yarn, wool and wool mixed yarn, fabrics, and readymade garments and made-ups. It was incorporated in 1976 as a joint sector company between RIICO Ltd. (Govt. of Rajasthan Undertaking) and Mr. R. L. Toshniwal. In 1982, Mr. Toshniwal purchased the shares from RIICO. Currently, it is a public limited company, with the promoters having 58.87% shareholding. Its manufacturing facilities are located at Banswara (spinning, weaving and dyeing) in Rajasthan, and at Daman and Surat (garmenting).

In Q1 FY2020, BSL reported net profit of Rs. 11.6 crore on an operating income of Rs. 341.8 crore. During FY2019, BSL reported net profit of Rs. 24.1 crore on an operating income of Rs. 1,350.9 crore.

Key financial indicators (audited)

Standalone financials	FY2018	FY2019	Q1 FY2020
Operating Income (Rs. crore)	1293.8	1350.9	341.8
PAT (Rs. crore)	7.9	24.1	11.6
OPBDIT/OI (%)	8.7%	8.9%	10.1%
RoCE (%)	7.8%	9.0%	-
Total Outside Liabilities/Tangible Net Worth (times)	3.1	2.4	-
Total Debt/OPBDIT (times)	5.1	3.9	-
Interest Coverage (times)	1.9	2.1	2.6
DSCR	0.9	1.1	-

Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; RoCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work-in-Progress); DSCR: Debt Service Coverage Ratio; Source: BSL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating		FY2019	FY2018	FY2017
					17-Sep-2019	10-Sep-2019			
1	Domestic/Export Credit Facility	Long Term	415.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-	-
2	Term loan	Long Term	177.00	159.4*	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-	-
3	Letter of credit/bank guarantee	Short Term	78.00	-	[ICRA]A3+	[ICRA]A3+	-	-	-
4	Fixed deposit	Medium Term	30.00	-	MA- (Stable)	-			

*o/s as on March 31, 2019

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Domestic/Export Credit Facility	-	-	-	415.00	[ICRA]BBB (Stable)
NA	Term loan	FY2015	-	FY2028	177.00	[ICRA]BBB (Stable)
NA	Letter of credit/bank guarantee	-	-	-	78.00	[ICRA]A3+
NA	Fixed deposit	-	-	-	30.00	MA- (Stable)

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