

Press Release

Providence Textiles

October 08, 2018



Rating Assigned and Reaffirmed

Total Bank Facilities Rated*	Rs. 14.29 Cr. (Enhanced from Rs. 10.00 crore)
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 10.00 crore bank facilities of Providence Textiles (PT) and has assigned long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 4.29 crore bank facilities of PT. The outlook is '**Stable**'.

Punjab-based partnership firm Providence Textiles (PT) was established in 2011, by Mr. Sanjay Bansal and Mrs. Kanika Bansal. The firm is engaged in trading and manufacturing of woollen yarn and garments in domestic and export markets like Ireland and Bangladesh.

Key Rating Drivers

Strengths

- **Experienced management**

Providence Textiles (PT), was established by Mr. Sanjay Bansal and Mrs. Kanika Bansal in 2011. The partners have experience of around two decades in the textile industry. Mr. Bansal oversees the day-to-day operations of the firm. Experience of the promoters in the industry have helped the firm maintain healthy relations with its customers and suppliers which has helped the firm expand its business from trading to manufacturing.

- **Comfortable working capital cycle**

The firm has comfortable working capital cycle marked by Gross Current Asset (GCA) days of 109 in FY2018 (Provisional) against 87 days in FY2017. Receivables collection period stood at 36 days for FY2018 (Provisional) as against 58 days in the previous year. Inventory holding period stood at 60 days in FY2018 (Provisional) against 22 days in FY2017. Further, short term bank limit utilization stood at 80-85 per cent in the last six months ending September 2018.

Weaknesses

- **Weak financial risk profile**

The firm has weak financial risk profile on account of relatively low networth, high gearing and moderate debt protection measures. The networth base of the firm stood at Rs.4.39 crore as on 31st March 2018 (Provisional) as compared to Rs.4.19 crore as on 31st March 2017. The gearing of the firm stands high at 2.66 times as on 31st March 2018 (Provisional) as compared to 2.18 times as on 31st March 2017. The total debt of Rs. 11.67 crore as on 31st March 2018 (Provisional) includes working capital limit of Rs.10.67 crore and interest free unsecure loans from promoters/ relatives of Rs.1.00 crore. The interest coverage stood at 1.38 times for FY2018 (Provisional) as against 1.30 times in the previous year. The net cash accruals to total debt (NCA/TD) stands at 0.04 times in FY2018 (Provisional) and FY2017.

- **Foreign exchange fluctuation risk**

The firm is exposed to foreign exchange fluctuation risk as it generates around 25 per cent revenue from export of woollen yarn to clientele in international markets.

- **Highly fragmented and competitive industry**

PT operates in a highly fragmented industry with limited entry barriers wherein the presence of large

number of players in the unorganised sector limits the bargaining power with customers.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of the firm.

Outlook: Stable

Acuité believes that PT will maintain a 'Stable' outlook over the medium term owing to its experienced management and long-standing relations with customers and suppliers. The outlook may be revised to 'Positive' in case of improvement in the capital structure or improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative', in case of deterioration in the profitability margins, lower than expected cash accruals or if the firm takes on large debt-funded capital capex adversely impacting its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	40.96	40.31	35.19
EBITDA	Rs. Cr.	1.79	1.40	1.30
PAT	Rs. Cr.	0.31	0.28	0.23
EBITDA Margin	(%)	4.38	3.46	3.71
PAT Margin	(%)	0.75	0.70	0.64
ROCE	(%)	10.97	11.35	11.77
Total Debt/Tangible Net Worth	Times	2.66	2.18	2.10
PBDIT/Interest	Times	1.38	1.30	1.27
Total Debt/PBDIT	Times	6.50	6.52	5.50
Gross Current Assets (Days)	Days	109	87	113

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.smerra.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Aug-2017	Cash Credit	Long Term	INR 8	ACUITE B+ / Stable (Reaffirmed)
	Bills Discounting	Short Term	INR 1	ACUITE A4 (Reaffirmed)
	Proposed Cash Credit	Long Term	INR 1	ACUITE B+ / Stable (Reaffirmed)
25-May-2016	Cash Credit	Long Term	INR 8	ACUITE B+ / Stable (Assigned)
	Bills Discounting	Short Term	INR 1	ACUITE A4 (Assigned)
	Proposed Cash Credit	Long Term	INR 1	ACUITE B+ / Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit*	Not Applicable	Not Applicable	Not Applicable	7.99	ACUITE B+ / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.30	ACUITE B+ / Stable (Assigned)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Assigned)

*Sublimit of Rs. 5.50 crore (Packing Credit/ Packing credit in foreign currency)

*Sublimit of Rs. 0.60 crore (Foreign Discount Bill Purchase / Foreign Usance Discount Bill Purchase)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-67141111 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Manmיתה Sodhi Analyst - Rating Operations Tel: 02249294024 manmיתה.sodhi@acuiteratings.in	

About Acuité Ratings & Research:

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