

Press Release

Wampum Syntex

September 05, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs.18.50 Cr.
Long Term Rating	ACUITE BB-/ Stable (Upgraded from ACUITE B/ Stable)
Short Term Rating	ACUITE A4+ (Upgraded from ACUITE A4)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE B**' (read as **ACUITE B**) and the short-term rating to '**ACUITE A4+**' (read as **ACUITE A4 plus**) from '**ACUITE A4**' (read as **ACUITE A4**) on the Rs.18.50 crore bank facilities of M/S. WAMPUM SYNTEX. The outlook is '**Stable**'.

M/s. Wampum Syntex is a Surat, Gujarat-based partnership firm established in 2016. It is promoted by Mr. Sandeep Ostawal, Mr. Lokeshkumar Babal, Mr. Bhanwararam Bijaniya, Mr. Jugalkishore Bijaniya, Mr. Pawan Saboo, and Ms. Munni Bijaniya. The firm is engaged in manufacturing of Polyester and Nylon yarn, and started its operations in March, 2018. The manufacturing unit is located in Surat, which is hub for the textile industry. The manufacturing unit has installed capacity of 450 tonnes per month.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of M/s. Wampum Syntex to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

Wampum Syntex's promoters are into the textile industry for more than two decades. It helped the firm in stabilizing in its operations in the first year itself with revenues of Rs.60.9 crores (provisional) in FY2019. It purchases the raw material, majorly from the distributors of Reliance Industries Limited and supplies across pan- India. Acuité believes that the promoter's experience and the stable demand is expected to support in improving its revenue profile further over the medium term.

• Moderate financial risk profile

Wampum Syntex has a moderate financial risk profile, marked by high gearing (debt-to-equity), total outside liabilities to tangible networth (TOL/TNW) though partly supported by comfortable debt protection metrics. Its gearing is high due to initial period of operations with high debt-funded investment on the unit. Gearing and TOL/TNW are high at 2.59 times and 3.32 times on 31 March, 2019, as against 2.03 times and 2.40 times in the previous year, respectively. The firm incurred capex of Rs. 4.46 crore over the last two years to expand its scale of operations, while its incremental working capital requirement over the same period to support the increase in scale of operations has been around Rs.6.50 crore. The firm, on the other hand, generated cash accruals of Rs.4.08 crore over the same period. With no significant capex plans and comfortable cash accruals, the capital structure is expected to improve.

The revenues of the firm stood at Rs. 60.93 crore in FY2019, while its operating margins were moderate at 9.29 per cent. The moderate profitability levels led to comfortable debt protection measures of net cash accruals to total debt (NCA/TD) and interest coverage ratio for FY2019 of 0.22 and 3.43 times, respectively. The total debt of the firm consists of long-term debt to the tune of Rs. 8.81 crore, short-term debt to the tune of Rs. 6.48 crore and unsecured loans to the tune of Rs. 2.42 crore. Acuité expects the financial risk profile to remain comfortable over the medium term on account of comfortable accruals and no significant debt-funded capex.

- **Efficient working capital management**

Wampum Syntex's working capital is efficiently managed as is reflected by its gross current asset (GCA) days of around 91 days as on 31 March, 2019. The firm maintains inventory of around 30 days. Wampum Syntex extends a credit period of around 30 days to its customers. On the other hand, the firm takes advantage of the cash discounts on the procurement of raw materials, and hence pays the suppliers in time. As a result, the reliance on working capital limits is moderate, leading to moderate utilisation of its bank lines at an average of 81 per cent over the last seven months through July 2019, while the peak utilization is high at around 97 per cent during the same period. Acuite expects the working capital management to remain efficient over the medium term on account of the limited credit period extended to its customers.

Weaknesses

- **Nascent stage of operations and modest revenues**

Wampum Syntex was established in 2016 and started its commercial operations in March, 2018. In its first full year of operations, it has reported revenues of Rs. 60.93 crores in FY2019, which are modest in the industry; for 3MFY2020, it has reported revenues of Rs. 21 crore and revenues are expected in the range of Rs. 65-70 crores over the medium term limited by its capacity of 450 tonnes which is highly utilised.

- **High competition**

Wampum Syntex operates in a highly competitive industry characterised by large number of established and small players affecting its margins and bargaining power with its customers. The firm being in early stage of operations restricts its market to certain extent.

Liquidity Position

The liquidity position of Wampum Syntex is adequate, marked by comfortable net cash accruals of Rs. 4.08 crore on 31 March, 2019. Its accruals are expected in the range of Rs. 4.50 crore- 5.00 crore, against which its repayment obligations are about Rs. 0.81 crores. Its operations are efficiently managed with GCA of 91 days; however, as the raw materials are sourced against payment to avail discount lead to moderately high utilisation of its limits at around 81 per cent for seven months through July, 2019. The firm has unencumbered cash and bank balances of Rs. 0.72 crore as on 31 March, 2019. Acuite believes that going forward, the liquidity position of the firm will continue to remain adequate on account comfortable cash accruals and no significant debt- funded capex plans.

Outlook: Stable

Acuite believes that Wampum Syntex will continue to benefit over the medium term due to its experienced management. The outlook may be revised to "Positive", if the firm demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its operating margins. Conversely, the outlook may be revised to "Negative" in case of any sharp decline in profitability or larger than expected debt-funded capex or stretch in its working capital management or any significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	60.93	0.79
EBITDA	Rs. Cr.	5.66	0.17
PAT	Rs. Cr.	0.28	0.00
EBITDA Margin	(%)	9.29	21.49
PAT Margin	(%)	0.45	0.56
ROCE	(%)	8.56	1.35
Total Debt/Tangible Net Worth	Times	2.59	2.03
PBDIT/Interest	Times	3.43	1.34
Total Debt/PBDIT	Times	3.22	77.02
Gross Current Assets (Days)	Days	91	2585

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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
15-Oct-2018	Cash Credit	Long Term	4.00	ACUITE B / Stable (Assigned)
	Term Loan	Long Term	9.79	ACUITE B / Stable (Assigned)
	Letter of Credit	Short Term	0.35	ACUITE A4 (Assigned)
	Proposed Facility	Short Term	0.86	ACUITE A4 (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	7.00	ACUITE BB- / Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	9.72	ACUITE BB- / Stable (Upgraded)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.35	ACUITE A4+ (Upgraded)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	0.43	ACUITE A4+ (Upgraded)

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About Acuité Ratings & Research:

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