

## Press Release

### Wampum Syntex

October 13, 2020

#### Rating Upgraded and Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs.18.50 Cr.
<b>Long Term Rating</b>	ACUITE BB / Outlook: Stable (Upgraded from ACUITE BB-/Stable)
<b>Short Term Rating</b>	ACUITE A4+ (Reaffirmed)

\* Refer Annexure for details

#### Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) and reaffirmed the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.18.50 crore bank facilities of Wampum Syntex. The outlook is '**Stable**'.

The upgrade in the rating reflects the stabilization in operations with significant improvement in the turnover and profitability levels over the last three years. The rating also factors the comfortable financial risk profile with an infusion of funds by the promoters in the form of partner's capital, efficient working capital management supported by prudently management inventory and receivables, steady growth in business on account of experience and the growth driven philosophy of the partners and adequate liquidity position marked by judicious utilization of the working capital facilities.

#### About the Firm

Gujarat based, Wampum Syntex (WS) was established as a partnership firm in 2016 and is engaged in manufacturing of Polyester and Nylon dyed yarn and started its operations in March, 2018. The firm is promoted by Mr. Sandeep Ostawal, Mr. Lokeshkumar Babal, Mr. Bhanwararam Bijaniya, Mr. Jugalkishore Bijaniya, Mr. Pawan Saboo, and Ms. Munni Bijaniya. The manufacturing unit is located in Surat, which is a hub for the textile industry. The manufacturing unit has installed capacity of 6000 tonnes per annum.

#### Analytical Approach

Acuite has considered the standalone business and financial risk profile of Wampum Syntex to arrive at the rating.

### Key Rating Drivers

#### Strengths

- Experience and growth driven ideology of the management**

Wampum Syntex, promoted by Mr. Sandeep Ostawal, Mr. Lokeshkumar Babal, Mr. Bhanwararam Bijaniya, Mr. Jugalkishore Bijaniya, Mr. Pawan Saboo, and Ms. Munni Bijaniya have over two decades of experience in the said line of business. The extensive experience of the promoters has enabled the company to forge healthy and long-term relationships with customers and suppliers. The firm caters to reputed clients like Sona Tapes Private Limited, Orbit Exports Private Limited, Spica Elastics Vietnam Company Limited, to name a few. These clients are based out of pan India, and the firm also exports to key markets of Vietnam, Singapore and Peru. The management has a growth-driven philosophy demonstrated by the current strategic alliances being formed by way of partnering into a joint venture in Vietnam to cater to the export markets of Vietnam, Turkey, USA and South America. This is expected to add further comfort on the operational performance of the business. Acuite believes that the partner's extensive experience and healthy relationship with customers, coupled with the future plans laid down is expected to support the business risk profile of WS over the medium term.

- Growing Revenues**

WS's operating income witnessed growth since last two years from FY2018 to FY2020 (Prov.). The healthy relations with customers and suppliers translated to improvement in revenue growth, year-on-year, from Rs.0.79 Cr in FY2018 to Rs.79.02 Cr in FY2020 (Prov). Revenue growth has also been fueled by the conscious effort of the management to add additional capacity to cater the on-going flow of orders. Currently, the

firm has achieved a turnover of Rs.21.84 Cr for 5MFY2021. With a gradual gain in momentum of trade and business in the major markets, the firm is expected to churn revenue at similar levels of FY2020 (Prov). The margins have also witnessed sustainability with 8.92 percent in FY2020 (Prov) compared to 9.29 percent in FY2019. Further, the revenues are expected to improve further on account of expansionary plans entailed by the firm both in terms of capturing export markets as well as capacity expansion.

- **Efficient working capital management**

WS's working capital operations are efficiently managed as evident from Gross Current Asset days (GCA) of 87 days in FY2020 (Prov) against 91 days in FY2019 which is influenced by prudent inventory days and meaningful receivable management. The inventory days stood at 30 days in FY2020 (Prov) against 28 days in FY2019; most of the raw material is locally available and procured hence no pile-up of inventory is observed besides 30 days average inventory is expected to be maintained to cater to spot orders. The debtor's days stood at 34 days in FY2020 (Prov) against 37 days in FY2019 which is corresponding to normal terms with customers. Due to efficiently managed working capital operations, the loan facilities availed against it has also been used judiciously at ~70-80 percent through 5 months ending September-2020. Acuite believes that the working capital operations will continue to be efficiently managed supported by modest net worth, efficient collection mechanism and in time inventory levels.

- **Moderate financial risk profile**

WS's financial risk profile is moderate, marked by improved gearing, moderate TOL/TNW, modest capital structure leading to moderate leverage metrics albeit supported by comfortable debt-protection metrics. The gearing improved and stood comfortable at 1.10 times as on 31<sup>st</sup> March, 2020 (Prov) against 2.59 times as on 31<sup>st</sup> March, 2019. TOL/TNW is at 1.70 times as on 31<sup>st</sup> March, 2020 (Prov) against 3.32 times as on 31<sup>st</sup> March, 2019. Tangible net worth of the firm stood modest at Rs.13.34 Cr as on 31<sup>st</sup> March, 2020 (Prov) against Rs.7.15 Cr in the previous year. During the year FY2020, the partners have also infused additional capital of ~Rs.3.00 Cr to support the capital structure. The firm has incurred a capital expenditure entailing project cost of Rs. 12.00 Cr for making additions in the existing capacity from 5,400 tonnes per annum to 6,000 tonnes per annum which were funded completely through internal accruals. Currently, the firm has installed machineries in house worth Rs. 2.50 Cr, through internal accruals, for dyeing, texturizing and twisting which was earlier outsourced from Daman, Gujarat. The installed capacity of the same is 1,800 tonnes per annum. Healthy profitability indicators have led to comfortable debt protection metrics of interest coverage ratio (ICR) and NCA/TD of 4.25 times and 0.39 times, respectively in FY2020 (Prov). DSCR stood at 2.91 times in FY2020 (Prov). Acuite believes that the financial risk profile of the firm is expected to remain moderate on account of modest networth backed by sufficient net cash accruals vis- à-vis moderate debt repayment obligations and comfortable debt protection metrics.

## Weaknesses

- **High competition**

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

- **Risk of withdrawal associated with partnership nature**

Wampum Syntex was established as a partnership firm in 2017. Any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

## Rating Sensitivities

- Improvement in the scale of operations with improvement in its operating income and sustainability of profitability margins.
- Any stretch in working capital operations leading to the deterioration of its financial risk profile and liquidity.
- Any higher than expected debt-funded capital expenditure leading to deterioration in the financial risk profile.

## Material Covenants

None

## Liquidity: Adequate

WS has adequate liquidity, marked by adequate net cash accruals to moderate long-term repaying obligations. The firm has generated cash accruals of Rs.5.69 Cr for FY2020 (Prov) against moderate repayment obligations of Rs.0.81 Cr. Going forward the net cash accruals are expected to be in the range of Rs.3.47 Cr

to Rs.5.69 Cr against moderate repayment obligations of Rs.1.05 Cr to Rs.2.54 Cr. The bank lines were utilized at ~70-80 percent through 5 months ending in September-2020. The current ratio stood at 1.33 times for FY2020 (Prov). The firm has unencumbered cash and bank balances stood at Rs.0.33 Cr for FY2020 (Prov). Liquid investments stood at Rs.0.53 Cr as on 31<sup>st</sup> March 2020 (Prov). During the year, the firm had also availed a moratorium on the interest repayment of the existing term loans (March, 2020 to August, 2020). This interest amount on the same has been now compiled and converted as a separate Term Loan of Rs.0.27 Cr and the repayment will be done by March, 2021 to Aug, 2021. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals against moderate repayment obligations.

### 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	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	79.02	60.93
PAT	Rs. Cr.	3.30	0.28
PAT Margin	(%)	4.18	0.45
Total Debt/Tangible Net Worth	Times	1.10	2.59
PBDIT/Interest	Times	4.25	3.43

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

None

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Sep-2019	Cash Credit	Long Term	7.00	ACUITE BB-/ Stable (Upgraded)
	Term Loan	Long Term	9.72	ACUITE BB-/ Stable (Upgraded)
	Packing Credit	Short Term	1.00	ACUITE A4+ (Upgraded)
	Letter of Credit	Short Term	0.35	ACUITE A4+ (Upgraded)
	Proposed Bank Facility	Short Term	0.43	ACUITE A4+ (Upgraded)

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 Short Term Loan	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 Available	Not Applicable	Not Available	9.72	ACUITE BB/ Stable (Upgraded)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.35	ACUITE A4+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.43	ACUITE A4+ (Reaffirmed)

**Contacts**

Analytical	Rating Desk
Aditya Gupta Vice President – Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Sagarikaa Mukherjee Analyst - Rating Operations Tel: 022-49294033 <a href="mailto:sagarikaa.mukherjee@acuite.in">sagarikaa.mukherjee@acuite.in</a>	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

**About Acuité Ratings & Research:**

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.