BANSWARA

BSL / SEC / 23

14th October, 2023

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400 001
(Maharashtra)

Scrip Code: 503722

National Stock Exchange of India Ltd
Exchange Plaza Bandra–Kurla,
Bandra (East), Mumbai–400051
(Maharashtra)

Symbol :BANSWRAS

Sub: - Intimation of Credit Ratings for Bank facilities and Fixed Deposits Program of the Company

Dear Sir,

Pursuant to Regulation 30 read with Para A of Part A of schedule III to the Securities and Exchange Board of India (Listing obligation and Disclosure Requirements) Regulations, 2015, this is to inform that the India Ratings & Research assigns Credit Rating in respect to the total Bank Loan facilities of the Company as under

Instrument Type	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Long-term loans	March 2031	INR1,490	IND A/Stable	Assigned
Long-term loans	March 2030	INR 1375 (reduced from INR 1677.6)	IND A/Stable	Affirmed
Fund-based limits	-	INR 3000	IND A/Stable	Affirmed
Non-fund-based limits	-	INR 780	IND A1	Affirmed
Fixed deposits	-	INR 400	IND A/Stable	Affirmed

India Ratings and Research (Ind-Ra) has assigned and affirmed rating for Banswara Syntex Limited's (BSL) bank facilities as above and Copy of the Ratings published on website of India Ratings and Research (Ind-Ra) is enclosed herewith. Please take the same on record

Thanking You,

Yours faithfully

For BANSWARA SYNTEX LIMITED

Hanuman
Prasad
Kharwal

Digitally signed by Hanuman Prasad Kharwal
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Location:
Date: 2023-10-14 17:36+05:30

(H.P. KHARWAL)
Company Secretary& GM (Legal)
Membership No. ACS 28614
Encl: a/a

India Ratings & Research
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India Ratings Affirms Banswara Syntex's Bank Facilities at 'IND A'/Stable; Rates Additional Loans

Oct 13, 2023 | Other Textile Products

India Ratings and Research (Ind-Ra) has taken the following rating actions on Banswara Syntex Ltd's (BSL) bank facilities:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Long-term loans	-	-	March 2031	INR1,490	IND A/Stable	Assigned
Long-term loans	-	-	March 2030	INR1,375 (reduced from INR1,677.6)	IND A/Stable	Affirmed
Fund-based limits	-	-	-	INR3,000	IND A/Stable	Affirmed
Non-fund-based limits	-	-	-	INR780	IND A1	Affirmed
Fixed deposits	-	-	-	INR400	IND A/Stable	Affirmed

Key Rating Drivers

Debt-led Capex to Support Profitability: With the planned capex being largely focused towards value-added capacities, Ind-Ra believes BSL's EBITDA margins are likely to improve gradually with its increasing forward integration and an improvement in efficiencies. BSL has planned INR1,984 million capex over FY23-FY25 (31% incurred up to 31 August 2023), primarily towards debottlenecking by enhancing the weaving capacity by around 25% on installing around 70 additional looms operational since 1QFY24 to partially match the already higher processing capacity, enhance garments manufacturing capacity by 20% in jackets by 1QFY25 (earlier estimate was October 2023; deferred considering demand headwinds). The said capex also includes the setting up a new power line (33kva increased to 132 kva) for more flexibility to source the cheapest power available, the modernisation and replacement of old machineries to improve product quality and operational efficiency, the setting up for a solar power plant and effluent treatment plant among others.

Liquidity Indicator – Adequate: BSL's average utilisation of the sanctioned fund-based limits (INR3,000 million) was around 59% for the 12 months ended August 2023, providing sufficient liquidity cushion despite low free cash balances (end-1QFY24: INR77 million; FYE23: INR209 million; FYE22: INR200 million). The company also availed a capex loan of INR605 million (including undisbursed amount of INR106.3 million) in FY23, providing sufficient liquidity. The planned capex of around INR2,000 million over FY23-FY25 shall be funded by INR1,490 million term loan (100% tied-up; INR1,379.10 million undisbursed as at end-June2023) and the balance through internal accruals. While the absolute working capital requirement increased due to higher scale of operations in FY23, the net working capital cycle also elongated to 115 days in FY23 (FY22: 84 days; FY21: 102 days), due to a longer receivables cycle and a shorter payable cycle at end-March 2023 on increased realisations and high order book. The company's cash flow from operations (FY23: negative INR92 million; FY22: INR300 million; FY21: INR1,015 million) turned negative in FY23 on increased working capital requirements. The operational free cash flow remained negative at INR1,166 million in FY23 (FY22: negative INR306 million) due to higher capex and is likely to remain negative-to-neutral in FY24 and FY25, considering the planned capex.

Ind-Ra expects BSL's liquidity to remain adequate in FY24, considering the low use of the fund-based limits, unavailed term loans and debt-requirement tied-up for capex plans. The debt service coverage ratio is likely to remain above 1.30x with around INR489 million and INR628 million principal repayment obligations (including fixed deposit repayments) in FY24 and FY25, respectively.

Range-bound EBITDA Margins: BSL's EBITDA margins ranged between 8.5% and 13.5% over FY17-FY23 (FY23: 13.22%; FY22: 10.00%, FY21: 9.64%), primarily driven by its diverse market presence and a diversified product mix of yarns (37% of FY23's turnover), fabrics (38%) and garments (25%). The margins improved in FY23 on improved capacity utilisations, leading to higher efficiencies and an increased share of high value-added garments in the overall sales mix. In 1QFY24, the margins dipped to 8.85%, in line with the industry performance on lower capacity utilisation, considering demand headwinds which had led to a lower absorption of fixed costs. The product mix varies based on the demand scenario with the share of low-value low-margin yarns increasing during a downcycle and the share of high-value high-margin fabrics and garments increasing during an upcycle, impacting the margins accordingly. The margins are also supported by various government incentive schemes, under which BSL had received an export grant of INR206 million in FY23 (FY22: INR176 million; FY21: INR93 million). Such incentives form 10%-15% of BSL's EBITDA (FY23: INR1,981 million; FY22: INR1,190 million; FY21: INR759 million). As the production efficiencies and capacities of value-added products improve over FY24-FY26 with the additional capex planed, the EBITDA is likely to improve gradually in the range of 10%-14%.

Improved Credit Metrics in FY23; Moderation likely in FY24: BSL's net adjusted leverage (gross debt-free cash)/EBITDA; gross debt includes accepted letters of credit (LC)) improved to 1.95x in FY23 (FY22: 2.36x; FY21: 3.00x) and its interest coverage (EBITDA/(gross interest + rent)) increased to 6.24x (4.80x, 2.33x), despite the higher-than-Ind-Ra-estimated capex incurred by the company. The credit metrics improved due to a higher absolute EBITDA in FY23 on the back of increased demand in the textile sector for garments, leading to higher realisations and sales volumes after a major setback in FY21 due to Covid-19-led disruptions. However, in 1QFY24, on lower absolute EBITDA, the net adjusted leverage increased to 3.28x on an annualised basis and the interest coverage reduced to 4.00x. As BSL has major debt-led capex plans in FY24 and FY25 and factoring in the demand headwinds in FY24, the net adjusted debt is likely to peak around 3.00x in FY24 and reduce gradually thereafter below 2.50x over the medium term, supported by improved EBITDA generation on an increase in the scale of operations, various ongoing efficiency improvement measures, successful ramp-up of the enhanced capacities that are likely to be entirely operational from 1QFY25 and a progressive long-term debt repayment. The credit metrics are also supported by the low utilisation of the company's fund-based facilities.

Strong Pick-up in Operational Performance in FY23; Demand Headwinds in FY24: The capacity utilisations have improved considerably with the yarn capacity operating at 87% in FY23 (FY22: 81%; FY21: 59%), fabrics weaving capacity at 87% (74%; 47%) and garment capacity at 86% (58%, 29%) as the demand recovered post the pandemic. Also, post Covid-19, around 50% of the labour force for garments was new and required three-to-six months training, leading to lower operational efficiency in FY22. With the workforce stabilising since FY23, the efficiency has improved with higher capacity utilisations and an increased share of value-added products in the sales mix. However, an economic slowdown in the key consuming nations, the US & Europe, leading to reduced discretionary spending, is adversely impacting BSL's operational performance; the utilisations reduced in 1QFY24 (yarns: 81%; fabrics weaving: 76%; garments: 69%). The same is, however, likely to improve over 2HFY24 with an improvement in the demand. Furthermore, Ind-Ra believes BSL's increased focus on value-added products and the China Plus One strategy of international players shall auger well for the company, given BSL's established relations with major international brands with customer base expanding yoy. Increased volumes and a higher share of value-added products shall continue to improve the overall profitability gradually.

Strong Business Profile: BSL is an integrated textile player manufacturing yarns, fabrics and garments supported by its captive power plant (sufficient for 100% of the power requirements), driven by the promoters having over four decades of experience in the manmade textiles industry. The company's established long-term industry relations of over 10 years ensure uninterrupted product availability from key suppliers and over 80% repeat orders from reputed customers including some of the large brands across the globe. The ratings are also supported by BSL's geographical diversification across domestic and export markets (1QFY24: 41%; FY23: 48%; FY22: 45%; FY21: 41%) product diversification across value-added yarns and fabrics, three plant locations and technical collaborations. BSL has a diversified customer base with its top 10 customers accounting for around 25% of the total revenue in FY23 (FY22: 15%; FY21: 35%), reflecting reduced concentration risk.

Exposure to Price Volatility: BSL is exposed to volatility in raw material prices – polyester staple fibre prices (31% of raw material consumption in FY23) as it is a crude oil derivative and in viscose staple fibre (24%), which are both highly volatile commodities that could impact margins. It has no control over raw material prices as the suppliers are largely monopolistic players. However, BSL is mostly able to pass on the price fluctuation, although with a lag of one-to-two months as reflected in its range-bound EBITDA margins. Furthermore, the textile industry is cyclical in nature, which is strongly correlated to economic cycles and classified under discretionary spending. Hence, the revenue is susceptible to fluctuations in commodity prices for the end products. Nevertheless, considering the partial value-added textiles in BSL's product portfolio finding applications in the automotive sector, the volatility is lower than that faced by commodity products.

Forex Risks: BSL's exports comprised around 48% of the total revenue in FY23 while the import of raw materials was less than 5% of the total raw material consumed, exposing its margins to forex risk. However, as a practice, the company largely hedges its forex exposure, reducing the risk to a large extent. The absence of forex losses over FY18-FY23 reflects the efficient hedging practices of the company.

Inherent Industry Risks: The textile industry in India is highly fragmented due to the low entry barriers. Moreover, domestic demand faced significant disruptions due to the COVID-19 outbreak, and amid the pandemic, employee/labor health and safety risks have been accentuated. With the production-linked incentive scheme in place, additional capacities are likely to come up, especially for manmade fibre-based fabrics and garments, which may increase supply in the domestic market, leading to higher competition for BSL's fabrics and garments but also higher demand for BSL's yarns. Furthermore, the domestic industry's price dynamics depend significantly on the developments in China, the largest manufacturer and exporter in the global textile industry.

However, post the COVID-19 outbreak, anti-China sentiments have caused many international brands to look for another sourcing option apart from China, creating a significant opportunity for Indian textile players, especially in the organised market. Furthermore, substitution risk is high in the textile industry. A decline in demand for and the production of cotton yarn benefits the synthetic yarn segment. Against the average global blending of cotton and synthetics of 40:60, India's cotton blending stands at 65%, indicating a considerable scope for substitution of cotton with synthetic yarn.

Rating Sensitivities

Positive: The successful ramp-up of incremental capacities, increased diversification towards value-added products leading to an improvement in the EBITDA margins while maintaining the credit metrices on a sustained basis, will result in a positive rating action.

Negative: Any significant time or cost overruns in the planned capex, lower-than-Ind-Ra-expected revenue and/or operating EBITDA margins and/or a further elongation of the working capital cycle, leading to the net adjusted leverage (including LC acceptances) increasing above 2.50x beyond FY24, all on a sustained basis, will lead to a negative rating action.

Company Profile

Incorporated in 1976, BSL is a vertically-integrated textile company, engaged in the manufacturing of yarns (150,660 spindles), fabrics (464 fabric looms, 54 million meters per annum of fabric processing capacity) and readymade garments (4.86 million units per annum) at three plant locations - Banswara (Rajasthan), Daman (Daman) and Surat (Gujarat). The operations are also supported by 33megawatt captive power plants (meeting about 80% of its power requirement). Listed on the National Stock Exchange of India Ltd. & BSE Ltd., the company has its registered office at Banswara, Rajasthan.

FINANCIAL SUMMARY

Particulars	1QFY24	FY23	FY22
Net revenue (INR million)	3,027	14,988	11,898
EBITDA (INR million)	268	1,981	1,190
EBITDA margin (%)	8.85	13.22	10.00
EBITDA interest coverage (x)	4.00	6.24	4.80
Net adjusted leverage (including LC acceptances) (x)	3.28*	1.95	2.36
Source: Company, Ind-Ra; (*) on an annualised basis			

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook	
	Rating Type	Rated Limits (million)	Rating/Outlook	27 March 2023	28 December 2021
Long-term loans	Long-term	INR2,865	IND A/Stable	IND A/Stable	IND A-/Stable
Fund-based limits	Long-term	INR3,000	IND A/Stable	IND A/Stable	IND A-/Stable
Non-fund-based limits	Short-term	INR780	IND A1	IND A1	IND A1
Fixed deposits	Long-term	INR400	IND A/Stable	IND A/Stable	IND A-/Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Long-term loans	Low
Fund-based limits	Low
Non-fund-based limits	Low
Fixed deposits	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Contact

Primary Analyst
Shradha Saraogi
Associate Director
India Ratings and Research Pvt Ltd
Room no - 1201, 12th Floor, OM Towers, 32 Chowringhee Road, Kolkata-700071, India
+91 33 40302509
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Hasti Bhanushali
Analyst

Chairperson
Prashant Tarwadi
Director
+91 22 40001772

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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