

A Case Study

on

Ozone PB Spintex Ltd. – A Connecting Effort to *'Make in India' program*

By

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Introduction

Mr. Dharmendra Shah, Director of PB Group, was sharing his opinion on the ‘*Make in India*’ program of the Narendra Modi Government. He observed, “This is the only way to survive in world-wide economic slowdown as this program will help to generate jobs for millions and will earn billions of by way of value addition”. Textile industry is truly an equal opportunity employer. Traditionally, after agriculture, this is the only other sector that has generated huge employment opportunities for people irrespective of the literacy levels since it uses both skilled and unskilled human resources. Directly or indirectly, over 35 million people are employed in this sector. India's increasing efficiency in the sector along with 100% FDI allowed in the industry, is helping Indian textile firms consolidate their export positions.

Home to 24 percent of the world’s spindles, and 8 percent of the world’s rotors, India is the world’s second largest producer of cotton and silk, and also the second largest textile manufacturer. Besides this, India enjoys a comparative advantage in terms of skilled manpower and cost of production over other major textile producers, which makes the country a preferred destination for investment.

About the Company

Born, grown & evolved within the textile environment, Ozone PB Spintex Limited (OPBSL) is a Gujarat based public company established in December, 2012. It is classified as Indian Non-Government Company and is registered at Registrar of Companies, Ahmedabad. The company sells its products in India and also exports cotton yarn.

OPBSL is a joint initiative of the Ozone Group (real estate developer) and the PB Group (commission agent of cotton and other agro commodities). Mr. Dharmendra Shah, director of the PB Group, has around 25 years of experience in the cotton yarn industry. It is believed that OPBSL is poised to benefit from the expertise of Mr. Dharmendra Shah and the established operations of the PB Group.

The company strongly believes in delegation of power by putting full faith in the subordinates and empowering them to take decisions, backing their decisions and supporting them fully.

Its authorized share capital is Rs. 300,000,000 and its paid up capital is Rs. 287,000,000. The company began commercial production in August 2014 by setting up a spinning mill in Bavla, near Ahmedabad at total project cost of 85 crores. The installed capacity of the cotton yarn spinning mill was 26,112 spindles. *This follows Prime Minister Narendra Modi's '5 F' policy based on farm, fibre, fabric, fashion and foreign countries.* The company is likely to raise 85 crores as follows – equity capital of 24.50 crore, long term loans 55 crore and unsecured loans of Rs. 5 crore. The company's promoters have infused equity capital of Rs. 19 crore till date. The civil construction work of the spinning mill is complete. However, installation of machineries is pending, which exposes the company to project execution risk. Moreover, post commissioning, OPBSL's operations will be susceptible to raw material price volatility and intense competition prevalent in the cotton yarn industry.

The upcoming spinning unit is in proximity to raw material sourcing area in Gujarat, which is a major cotton growing state in India. The company is also eligible to receive tax rebate and interest subvention available under the Technological Upgradation Fund Scheme (TUFS) and Gujarat Textile Policy 2012. Moreover, the benefits under TUFS are conditional to timely debt servicing and repayment by applicant, which entails financial discipline on the part of the company.

The company's focus is only on value-added products, and its product portfolio includes slub yarns, compact yarns, eli twist yarns, TFO yarns, etc. It also has certification for Better Cotton Initiative (BCI) as well as organic yarns. Besides, it produces soft wound packages on dye tubes ready for dyeing, and currently turns out around 450 metric tons of yarn per month.

To keep a Quality control start right from ginning stage, the company has a fully automated in-house ginning facility. To ensure best quality, the company vouches right selection of raw material, fine tuned process parameters, well trained work force, highly educated supervisors and well motivated management team. It is also implementing ISO: 9000 and is expecting to receive certification soon, also has a full-fledged testing lab which has the best quality control equipment available. It has installed equipment from Statex for yarn evenness testing, fibre testing, trash analyser, RKM testing, CSP test, electronic twist test, etc., while yarn clearers are from Leopfe.

The company differentiates its product in the market by considering yarn not as a commodity, but as a highly technical product. Moreover, the value additions and high customization also help them to stay ahead of others.

SWOT Analysis

The company's SWOT Analysis is:

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none">• Long standing experience in spinning• Focus on R&D for continuous improvement• Flexible in time & quantity• Customized service• Work for Zero customer dissatisfaction	<p style="text-align: center;">Weakness</p> <ul style="list-style-type: none">• Project execution risk due to pending machinery installation• Highly dependent on cotton which depends on crop
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none">• Based next to the cotton field & proximity to sea ports• In-house ginning facility• Vibrant domestic demand	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none">• Strong competition in the cotton yarn industry• Entry of new players• Lack of adequate & timely credit

Credit Rating

The OPBSL is also rated by SMERA (SME Rating Agency of India Ltd.) on 1st April; 2014. The ratings assigned to the various facilities of the company are:

Facilities	Amount (Rs. Crore)	Rating
Term Loan (I)	35.00	SMERA B+/Stable (Assigned)
Term Loan (II)	20.50	SMERA B+/Stable (Assigned)
Cash credit	8.00	SMERA B+/Stable (Assigned)
Bank Guarantee	4.40	SMERA A4 (Assigned)

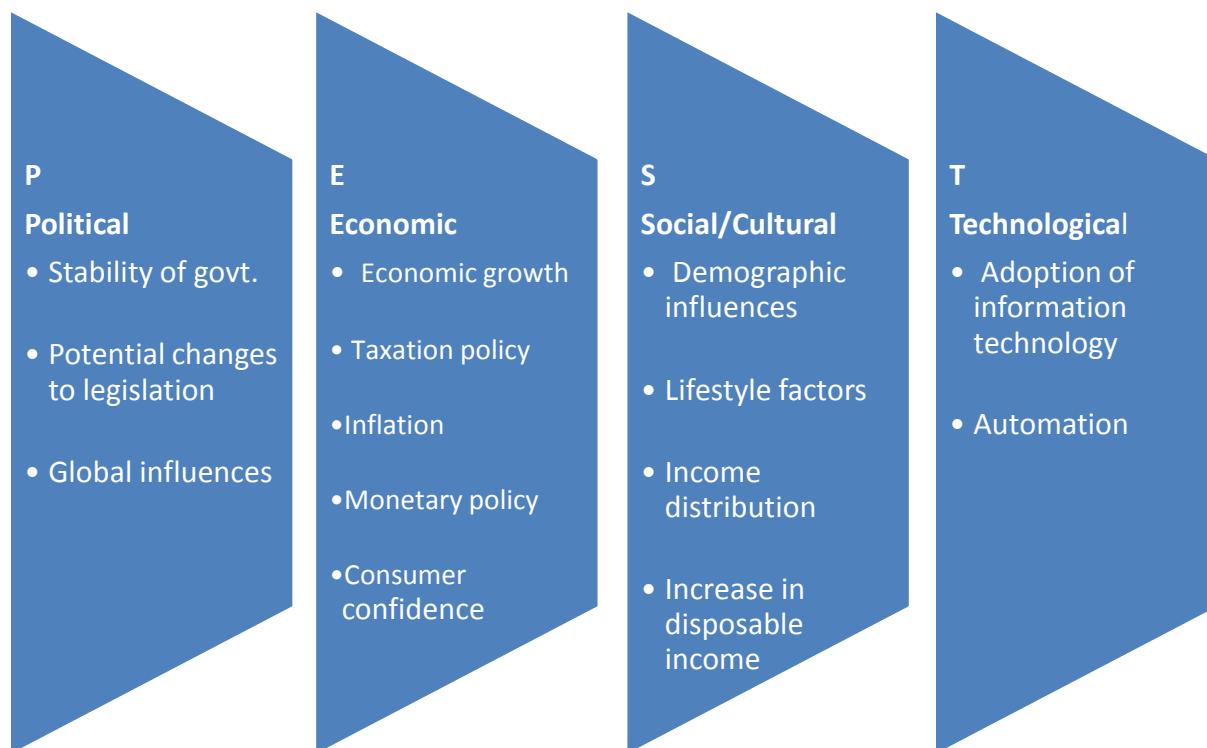
The ratings are constrained by the company's exposure to project execution risk and industry-specific risks as well, including intense competition and raw material price volatility.

However, the ratings are supported by the company's experienced management and location-specific advantage.

The company also applied for credit rating by CRISIL on 14 July, 2015 for local debt instruments. The company scored short term rating of A4+ for Rs. 15 million bank guarantee and long term rating of BB- for Rs. 635 million term loans and Rs. 150 million cash credit.

PEST Analysis

P.E.S.T. is an acronym for the Political, Economic, Social, and Technological factors of the external macro-environment. The following framework of textile industry will affect the performance and activities of the business of the company in long term.



Challenges

SMEs are exposed to the competitive pressures either directly from the market place (as a result of new open markets) or indirectly passed on from their higher ups in the chain. In such a context the ability to export is becoming a critical factor in the development and long term survival of many. Also lack of knowledge to locate foreign opportunities and promising markets is supposed to be a major obstacle. However, with the OPBSL's dynamism, flexibility and innovative drive,

they are increasingly focusing on improved production methods, penetrative marketing strategies and management capabilities to continue and build up their operations. Though the global economic crisis has already affected their exports, the company would grow provided it takes competition and innovation seriously. The govt. can also support by placing such companies in an enabling environment by providing proper incentive schemes. Export is considered one way of motivating factor for growth of OPBSL.

Future Outlook

Gujarat accounts for over 40 per cent of the textile exports, and is the largest producer of cotton. The upcoming govt. policies are expected to focus on cotton spinning, which has a huge potential since over 80 per cent of the cotton produced in the state goes to other states for value addition.

The company directors are also quite optimistic about the prospects of the Indian textile industry, particularly the spinning sector, and feel that the time-frame between 2015 and 2020 will be particularly good in view of better days ahead. Ozone PB Spintex is already working on doubling its existing capacity, which will come into operation by 2016.

In the recent times, the availability of raw material at reasonable costs and availability of labor, along with giant strides in technology involving the progress of textile industry, it has turned into a sector that holds lots of promises.

The goal of the company is to be present across the complete textile value chain, right from farming to ginning to spinning and finally garmenting, with a vision to install 100,000 spindles by 2020 and achieve a sales turnover of Rs. 500 crores.

The Director assumes, “My faith in our team has enabled me to approach new challenges in my personal and professional life as well. I always try to motivate, inspire and encourage my co-workers, managers and subordinates so as to complete their assignments successfully while portraying traits of integrity and ethics”, signaling good times ahead for the company.

Questions

1. Explain the '5 F' policy of Ozone in the light of current environment in the textile industry.
2. Comment on the outlook of the company from the viewpoint of a credit rating agency.

References

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