

October 19, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	90.00*	SMERA BBB-/Stable (Assigned)
Term Loans	104.56	SMERA BBB-/Stable (Assigned)
Letter of Credit	5.00	SMERA A3 (Assigned)
Letter of Guarantee	0.25	SMERA A3 (Assigned)
Proposed Facilities	0.19	SMERA BBB-/Stable/SMERA A3 (Assigned)

*Sub limit is packing credit and FOBP/FOUBP to the extent of Rs.20.00 crore

SMERA has assigned a long term rating of '**SMERA BBB**' (read as **SMERA triple B minus**) and a short-term rating of '**SMERA A3**' (read as **SMERA A three**) to the Rs.200.00 crore bank facilities of Vallabh Textiles Company Limited (VTCL). The outlook is '**Stable**'. The ratings are supported by the company's experienced management, large and consistently growing scale of operations and established customer base. Further, the ratings also draw support from the company's healthy net worth, operating margin and the benefits derived from TUFS (Technology Upgradation Fund Scheme). The ratings also note increase of India's share in the USA terry towel market. However, the ratings are constrained by the company's high debt-to-equity ratio, exposure to foreign exchange fluctuation risk and fluctuations in raw material prices.

VTCL, incorporated in 2002 is a Punjab-based company engaged in the manufacture and export of terry towel and bath robes. The company is part of the Vallabh group. VTCL is managed by Mr. Vikram Jain, who has more than a decade of experience in the textile industry. VTCL's operating income has grown at a CAGR of 14 per cent in the past three years ending March 2015. The operating revenue of the company increased to Rs.240.13 crore in FY2015 from Rs.185.95 crore in FY2013.

VTCL has an established customer base spread across the globe with reputed names such as Sunham Homes Fashions (which supplies to brands like Lacoste, Hugo Boss, Kenneth Cole Reaction Home), Primark, Bed Bath N Table among others to its credit. Most of its customers are concentrated in the USA (~30 percent) followed by Europe, Japan, Australia and Canada.

VTCL has a healthy net worth of Rs.58.81 crore as on March 31, 2015 that includes unsecured loans from promoters of Rs.33.57 crore treated as quasi equity. The operating profit of the company is healthy at 18.39 percent in FY2015 as compared to 17.33 percent in FY2014.

India's share in USA terry towel market has increased by ~16 percent in FY2015 from FY2014. India exported ~62 percent of its terry towel to USA in FY2015 which accounts for ~Rs.3720 crore. VTCL has availed interest subsidy benefits of 4.5 percent under TUFS.

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However, the debt to-equity-ratio of the company is high at ~3 times as on March 31, 2015. Furthermore, the gearing of the company is expected to decline in future as VTCL has no debt funded capex plans.

VTCL exports terry towel to USA, Europe, and Japan. The company's share of exports stands at ~91 percent in FY2015 out of the total revenue. The risk of adverse forex fluctuations are mitigated through adequate hedging mechanisms adopted by the company.

Rating Sensitivity Factors

- Debt funded capex
- Working capital management

Outlook: Stable

SMERA believes the outlook on VTCL's rated facilities will remain stable over the medium term. The outlook may be revised to 'Positive' in case the company registers significant increase in its revenue while improving liquidity position. The outlook may be revised to 'Negative' in case of increase in the gearing, stretched working capital cycle and lower than expected increase in revenue.

About the Company

VTCL, incorporated in 2002 was promoted by Mr. Vikram Jain, who has more than a decade experience in the textile industry. The company manufactures terry towels and bath robes at its manufacturing facilities in Ludhiana, Punjab and exports them to USA, Europe, and Japan. VTCL has installed capacity of 6500 tonnes of yarn per annum.

VTCL reported net cash accrual (NCA) of Rs.18.75 crore on operating income of Rs.240.13 crore for FY2014-15, as compared with NCA of Rs.14.76 crore on operating income of Rs.218.86 crore in FY2013-14.

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