

Press Release

Vallabh Textiles Company Limited (VTCL)

30 January, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.200.00 Cr
Long Term Rating	SMERA BBB-/Stable (Reaffirmed)
Short Term Rating	SMERA A3 (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BBB-**' (**read as SMERA triple B minus**) and short-term rating of '**SMERA A3**' (**read as SMERA A three**) on the Rs.200.00 crore bank facilities of Vallabh Textiles Company Limited (VTCL). The outlook is '**Stable**'.

VTCL incorporated in June 2002, is part of the Vallabh group founded by Mr. Kapil Jain in 1981. The company manufactures terry towels and bath robes which are exported to Australia, USA, Europe, Japan and Canada. The raw material is purchased from suppliers in Punjab, Haryana and Rajasthan. The installed capacity for yarn and towels is 6500 tonnes and 5000 tonnes per annum respectively

List of key rating drivers and their detailed description

Strengths:

Experienced management: The promoters, Mr. Vikram Jain, Mr. Suresh Gupta, Mr. Kailash Lalpuria and others possess experience of over a decade in the textile industry.

Moderate financial risk profile: VTCL has moderate growth in revenue of Rs.249.73 crore in FY2015-16 from Rs.240.13, crore in the previous year. Moreover, the interest coverage ratio continued to remain at 1.85 times in FY2015-16. The operating margin stood at 16.03 per cent in FY2015-16 against 18.39 per cent in FY2014-15. The net profitability stood at Rs.3.16 crore in FY2015-16 against Rs.2.79 crore in FY2014-15. The company has moderate liquidity profile (88 per cent bank limit utilisation from April 2016 to October 2016).

The gearing (debt-to-equity) has been high at 3.06 times as on 31 March, 2016 against 3.27 times in the previous year. The net profitability margin is low at 1.27 per cent in FY2015-16 against 1.16 per cent in the previous year. VTCL has working capital intensive business with high Gross Current Assets (GCA) days at 240 in FY2015-16 as compared to 216 days in FY2014-15. The company is exposed to forex fluctuation risk. The profit margins are susceptible to fluctuations in the prices of cotton. The company operates in an intensely competitive segment of the textile industry.

Weaknesses:

Susceptibility of profit margins to exchange rate fluctuations: The profit margins are susceptible to fluctuations in the prices of raw material – cotton. Besides, the ratings factor in the susceptibility of profit margins to fluctuations in forex rates since the company exports its products to Australia, USA, Europe, Japan and Canada.

Working capital intensive business: VTCL has working capital intensive business with high Gross Current Assets (GCA) days at 240 in FY2015-16 as compared to 216 days in FY2014-15.

Intense competition: The firm faces intense competition from various players in India and overseas which is likely to impact its operating performance and profitability.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company.

Applicable Criteria

- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smerra.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smerra.in/criteria-default.htm>

Outlook: Stable

SMERA believes that VTCL will continue to maintain a stable outlook over the medium term and benefit from its experienced management. The outlook may be revised to 'Positive' if the company registers substantial growth in revenue and profitability while maintaining its debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile or working capital management.

About the Rated Entity

The Punjab-based VTCL, incorporated in June 2002, is part of the Vallabh group. Founded by Mr. Kapil Jain in 1981, the company is engaged in the manufacture of terry towels and bath robes. About 100% of the production of terry towel is exported to Australia, USA, Europe, Japan and others while yarn is sold in India through wholesalers. The raw material is purchased from suppliers in Punjab, Haryana and Rajasthan.

For FY2015-16, the company reported profit after tax (PAT) of Rs.3.16 crore on operating income of Rs.249.73 crore, as compared to PAT of Rs.2.79 crore on operating income of Rs.240.13 crore in FY2014-15. The net worth stood at Rs.63.58 crore (included quasi equity of Rs.32.47 crore) as on 31 March, 2016 against Rs.58.81 crore (included quasi equity of Rs.33.57 crore) a year earlier.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit*	LT	93.00	SMERA BBB-/Stable (Reaffirmed)	-	-	19 October, 2015	SMERA BBB-/Stable (Assigned)	-	-
Term Loan - I	LT	12.90 (reduced from 15.34)	SMERA BBB-/Stable (Reaffirmed)	-	-	19 October, 2015	SMERA BBB-/Stable (Assigned)	-	-
Term Loan - II	LT	16.12 (enhanced from 15.59)	SMERA BBB-/Stable (Reaffirmed)	-	-	19 October, 2015	SMERA BBB-/Stable (Assigned)	-	-
Term Loan - III	LT	11.32 (reduced from 13.07)	SMERA BBB-/Stable (Reaffirmed)	-	-	19 October, 2015	SMERA BBB-/Stable (Assigned)	-	-
Term Loan - IV	LT	1.67 (reduced from 2.11)	SMERA BBB-/Stable (Reaffirmed)	-	-	19 October, 2015	SMERA BBB-/Stable (Assigned)	-	-
Term Loan - V	LT	58.33 (enhancement from 54.85)	SMERA BBB-/Stable (Reaffirmed)	-	-	19 October, 2015	SMERA BBB-/Stable (Assigned)	-	-
Letter of Credit@	ST	6.00 (enhanced from 5.00)	SMERA A3 (Reaffirmed)	-	-	19 October, 2015	SMERA A3 (Assigned)	-	-
Letter of Guarantee	ST	-	-	-	-	19 October, 2015	SMERA A3 (Assigned)	-	-
Proposed	LT	0.66	SMERA BBB-/Stable (Reaffirmed)	-	-	19 October, 2015	SMERA BBB-/Stable/ SMERA A3 (Assigned)	-	-

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

@ Bank guarantee of Rs. 0.25 crore is the sub limit of letter of credit.

*Annexure - Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit*	N.A	N.A	N.A	93.00 (enhanced from 90.00)	SMERA BBB-/Stable (Reaffirmed)
Term Loan - I	N.A	N.A	March, 2021	12.90 (reduced from 15.34)	SMERA BBB-/Stable (Reaffirmed)
Term Loan - II	N.A	N.A	June, 2022	16.12 (enhanced from 15.59)	SMERA BBB-/Stable (Reaffirmed)
Term Loan - III	N.A	N.A	Jan, 2022	11.32 (reduced from 13.07)	SMERA BBB-/Stable (Reaffirmed)
Term Loan - IV	N.A	N.A	March, 2021	1.67 (reduced from 2.11)	SMERA BBB-/Stable (Reaffirmed)
Term Loan - V	N.A	N.A	October, 2024	58.33 (enhancement from 54.85)	SMERA BBB-/Stable (Reaffirmed)
Letter of Credit@	N.A	N.A	N.A	6.00 (enhanced from 5.00)	SMERA A3 (Reaffirmed)
Proposed	N.A	N.A	N.A	0.66 (enhanced from 0.19)	SMERA BBB-/Stable (Reaffirmed)

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

@ Bank guarantee of Rs. 0.25 crore is the sub limit of letter of credit.

Note on complexity levels of the rated instrument:

<https://www.smerra.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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