

## Press Release

### Vinod Denim Limited

March 28, 2019



### Rating Reaffirmed and Assigned

|                                     |                               |
|-------------------------------------|-------------------------------|
| <b>Total Bank Facilities Rated*</b> | Rs. 33.02 Cr.                 |
| <b>Long Term Rating</b>             | ACUITE BBB- / Outlook: Stable |
| <b>Short Term Rating</b>            | ACUITE A3                     |

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed and assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and reaffirmed the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 33.02 crore bank facilities of Vinod Denim Limited (VDL). The outlook is '**Stable**'.

VDL was established in 2009 by the Mittal family and is engaged in manufacturing of wide range of denim fabric. The company commenced its operations from 2011. The company purchases raw cotton yarn and undertakes warping, sizing and texturing activity in-house, along with dyeing and finishing process. The company sells finished denim fabric (indigo dyed) to traders in Delhi, Ulhasnagar, Kolkata and Ahmedabad.

### Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Vinod Denim Limited (VDL), Vinod Fabrics Private Limited (VFPL), United Polyfab Private Limited (UPPL), United Polyfab Gujarat Limited (UPGL), Vinod Spinners Private Limited (VSPL), Vinod Cofab Private Limited (VCPL) and United Techfab Private Limited (UTPL) together referred to as the Vinod group. The consolidation is on the basis of common promoters, shared brand name and financial synergies within the group. The Extent of consolidation: Full.

### Key Rating Drivers

#### Strengths

#### • Experienced management and established presence in the textile industry

VDL is part of the Vinod group of companies (Textile division) which was established in 1983 by Mr. Mittal and family. The company undertakes warping, sizing and texturing activity of cotton yarn along with dyeing and finishing of grey denim fabric in-house while weaving is outsourced to a third party. The group has integrated operations across the textile value chain and undertakes spinning, weaving, processing and trading. The companies are engaged in the manufacturing of yarn, grey fabric, denim fabric and processing (bleaching, printing, dyeing). The group has a pan India presence and a wide dealer network. The group is promoted by Mr. Nirmal Mittal and Mr. Gagan Mittal, who collectively possess more than three decades of experience in the textile industry. The top management is also supported by a well-qualified and experienced team of second line of management. Acuité believes that the extensive experience of the promoters will strengthen the business of the group over the medium term.

#### • Comfortable financial risk profile

The financial risk profile of the group stood comfortable marked by tangible net worth of Rs.159.48 crore (including unsecured loans from promoters of Rs.159.48 crore) as on 31 March, 2018 as against Rs.120.01 crore (including unsecured loans from promoters of Rs.27.15 crore) as on 31 March, 2017. The gearing (debt-equity) stood at 1.47 times as on 31 March, 2018 which has improved from 1.68 times as on 31 March, 2017. The interest coverage ratio stood comfortable at 3.27 times for FY2018 as against 3.56 times for FY2017. The DSCR stood modest at 1.57 times for FY2018. The TOL/TNW has also improved to 1.86 times in FY2018 as compared to 2.06 times in FY2017. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.15 times for FY2018. Acuité believes that the financial risk profile will remain healthy in the medium term mainly due to healthy net worth base and steady accruals.

#### • Improving revenue and margins

The operating income of the group has improved to Rs.438.09 crore in FY2018 as compared to Rs.343.87 crore in FY2017. The group registered a growth of 27.40 percent Year on Year. The operating margins have also improved marginally to 11.68 percent in FY2018 as compared to 11.15 percent in FY2017. The PAT margins have improved to 1.63 percent in FY2018 as compared to 1.50 percent in FY2017. The improvement is due to increase in scale of operations, capacity utilisation levels and completion of ongoing capex plans. Acuite believes that the revenues may improve further due to increase in capacity utilisation level and expansion of geographies.

#### Weaknesses

#### • Susceptibility to changes in raw material prices

The group's margins are susceptible to changes in the prices of cotton yarn, the main raw material. Since cotton is an agricultural commodity, the availability and price of the same is highly dependent on agro-climatic conditions. Besides, the cotton prices are fixed by the government through Minimum Support Price (MSP). Moreover, the demand for cotton fabric is also dependent on the prices of polyester fabrics. Since, polyester yarn is dependent on crude oil prices; any decline in crude oil prices can have an adverse impact on the demand for cotton fabric. This will have high impact on the margins and restricts the group's bargaining power with its customers. However, the purchase price depends on the prevailing demand-supply situation which limits bargaining power with suppliers as well. Acuite believes that the group should be able to maintain its operating profitability around existing levels notwithstanding the volatility in prices of its key inputs, on the back of its established position in the domestic market.

#### • Highly competitive textile industry and shifts in consumer preferences

The textile industry in India is highly fragmented and competitive marked by presence of large number of organised and unorganised players. The group is exposed to intense competition from both domestic players (Arvind Limited, Nandan Denim Limited, KG Denim Limited and Aarvee Denim Limited) as well as the overseas market. The shifts in consumption patterns can also have an adverse impact on the operations of the group. The Indian denim industry has also seen a muted growth in past few years and will have impact on the growth of the existing players such as Vinod group. However, Acuite believes that extensive experience of promoters in textile will mitigate such risk to certain extent.

#### Liquidity Position

The liquidity profile of the group stood moderate marked by moderate net cash accruals to its maturing debt obligations. The net cash accruals stood at Rs.34.88 crore as compared to its total repayment obligations of Rs.21.61 crore in FY2018. The cash accruals of the company are estimated to improve during 2019-21. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 118 in FY2018 which has seen sharp increase from 90 days in FY2017.

The elongation in GCA days is due to increase in receivable days from 53 in FY2017 to 76 days in FY2018. This has led to moderate reliance on working capital borrowings, the cash credit limit of the company remains utilised at ~77.33 percent during the last six months period ended January, 2019. The current ratio of the company stood at 1.49 times in FY2018. The management is quite aggressive on availing debt from banks for meeting its continuous capital expenditure. Acuite expects that the liquidity of the group to improve over the medium term on account of increase in generation of net cash accrual from scaling up of operations.

#### Outlook: Stable

Acuite believes that Vinod Group will maintain 'Stable' outlook over the medium term owing to its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case the group registers significant growth in revenue and profitability while maintaining its existing working capital cycle. The outlook may be revised to 'Negative' in case of significant decline in revenue, margins or stretch in working capital cycle leading to deterioration in financial risk profile.

### About the Rated Entity - Key Financials

|                               | Unit    | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income              | Rs. Cr. | 438.09        | 343.87        | 289.22        |
| EBITDA                        | Rs. Cr. | 51.15         | 38.36         | 24.47         |
| PAT                           | Rs. Cr. | 7.14          | 5.15          | 4.36          |
| EBITDA Margin                 | (%)     | 11.68         | 11.15         | 8.46          |
| PAT Margin                    | (%)     | 1.63          | 1.50          | 1.51          |
| ROCE                          | (%)     | 7.30          | 7.23          | 6.99          |
| Total Debt/Tangible Net Worth | Times   | 1.47          | 1.75          | 1.29          |
| PBDIT/Interest                | Times   | 3.27          | 3.56          | 4.16          |
| Total Debt/PBDIT              | Times   | 4.33          | 5.09          | 4.39          |
| Gross Current Assets (Days)   | Days    | 118           | 90            | 69            |

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

Not Applicable

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

### Note on complexity levels of the rated instrument

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

### Rating History (Upto last three years)

| Date        | Name of Instrument / Facilities | Term       | Amount (Rs. Cr.) | Ratings/Outlook                         |
|-------------|---------------------------------|------------|------------------|-----------------------------------------|
| 16-Jan-2019 | Cash Credit                     | Long Term  | 15.00            | ACUITE BBB-<br>Issuer not co-operating* |
|             | Term Loan                       | Long Term  | 2.51             | ACUITE BBB-<br>Issuer not co-operating* |
|             | Term Loan                       | Long Term  | 4.74             | ACUITE BBB-<br>Issuer not co-operating* |
|             | Term Loan                       | Long Term  | 0.28             | ACUITE BBB-<br>Issuer not co-operating* |
|             | Term Loan                       | Long Term  | 10.09            | ACUITE BBB-<br>Issuer not co-operating* |
|             | Bank Guarantee                  | Short Term | 0.40             | ACUITE A3<br>Issuer not co-operating*   |
| 17-Nov-2017 | Cash Credit                     | Long Term  | 15.00            | ACUITE BBB- / Stable<br>(Assigned)      |
|             | Term Loan                       | Long Term  | 2.51             | ACUITE BBB- / Stable<br>(Assigned)      |
|             | Term Loan                       | Long Term  | 4.74             | ACUITE BBB- / Stable<br>(Assigned)      |
|             | Term Loan                       | Long Term  | 0.28             | ACUITE BBB- / Stable<br>(Assigned)      |
|             | Term Loan                       | Long Term  | 10.09            | ACUITE BBB- / Stable<br>(Assigned)      |
|             | Bank Guarantee                  | Short Term | 0.40             | ACUITE A3<br>(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 | 15.00                       | ACUITE BBB- /Stable (Reaffirmed) |
| Term loans             | Not Applicable   | Not Applicable | Not Applicable | 1.89                        | ACUITE BBB- /Stable (Reaffirmed) |
| Term loans             | Not Applicable   | Not Applicable | Not Applicable | 4.03                        | ACUITE BBB- /Stable (Reaffirmed) |
| Term loans             | Not Applicable   | Not Applicable | Not Applicable | 1.23                        | ACUITE BBB- /Stable (Reaffirmed) |
| Proposed Facility      | Not Applicable   | Not Applicable | Not Applicable | 1.06                        | ACUITE BBB- /Stable (Assigned)   |
| Bank guarantee         | Not Applicable   | Not Applicable | Not Applicable | 0.50                        | ACUITE A3 (Reaffirmed)           |
| Term loans             | Not Applicable   | Not Applicable | Not Applicable | 9.31                        | ACUITE BBB- /Stable (Reaffirmed) |

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|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
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**About Acuité Ratings & Research:**

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