

Press Release

UNITED POLYFAB GUJARAT LIMITED

January 02, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 140.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (**read as SMERA BBB minus**) and short term rating of '**SMERA A3**' (**read as SMERA A three**) on the Rs. 140.00 crore bank facilities of UNITED POLYFAB GUJARAT LIMITED. The outlook is '**Stable**'.

The Ahmedabad-based United Polyfab Gujarat Limited (UPGL) incorporated in 2010 was promoted by Mr Mittal and family. The company is engaged in the manufacturing of grey cloth fabric and derives around 77 percent sales from manufacturing and the remaining from job work activity. The company sells its products to local textile manufacturers and traders in the domestic market. The raw material (i.e. cotton yarn, synthetic yarn and others) is procured from the local market.

Key Rating Drivers

Strengths

• **Established presence in the textile industry and promoter's extensive experience**

UPGL is part of the Vinod group of companies (Textile division) which was established in 1983 by Mr Mittal and family. The group consists of Vinod Fabrics Private Limited (VFPL), Vinod Denim Limited (VDL), United Polyfab Private Limited (UPPL), United Polyfab Gujarat Limited (UPGL), Vinod Spinners Private Limited (VSPL), Vinod Cotfab Private Limited (VCFPL) and United Techfab Private Limited (UTPL). The group is integrated 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, processing (bleaching, printing, dyeing). The group has a pan India presence and a wide dealer network. The group was 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 ably supported by a well-qualified and experienced team of second line of management. SMERA believes that the extensive experience of the promoters will strengthen the business of the group over the medium term.

• **Healthy revenue growth, established presence of the company**

The revenue of the company has more than doubled from Rs.165.75 crore in FY2014 to Rs. 343.45 crore in FY2017 (Provisional). The group reported revenues of Rs. 175.97 crore (Provisional) during April, 2017 to September, 2017 for five companies. The net cash accruals of the group stood at Rs. 26.28 crore for FY2017 (Provisional) as against Rs.18.36 crore in the previous year. Vinod Denim Limited contributed around 58 percent to the total revenue of VGT. The improvement in revenue is on account of continuous capacity addition and higher capacity utilisation over the last four years. The net block of the group increased from Rs. 64.78 crore in FY2014 to ~ Rs. 250.00 crore (Provisional) in FY2017. Vinod Spinners Private Limited commenced manufacturing of cotton yarn from April, 2016. The group has ongoing capex plan in United Polyfab Private Limited, United Polyfab Gujarat Limited and Vinod Fabrics Private Limited which is expected to be completed by March, 2018. The revenue growth has been healthy. Going forward, SMERA expects the group to benefit from strong demand in the domestic denim segment which is expected to grow at a CAGR of 14.50 percent till 2021.

• **Comfortable financial risk profile**

SMERA Ratings Limited

Registered Office: 102, Sumer Plaza, Marol Maroshi Road, Marol, Andheri (East), Mumbai - 400 059

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The financial risk profile is comfortable marked by networth of Rs.110.52 crore as on 31 March, 2017 (Provisional) compared with Rs. 75.72 crore as on 31 March, 2016. The increase in networth is mainly on account of capital infusion by promoters to support the ongoing capex. The gearing stood at 1.91 times as on 31 March, 2017 (Provisional) compared to 1.63 times in the previous year. The total borrowings of Rs. 211.62 crore as on 31 March, 2017 (Provisional) comprises long term borrowings to the tune of Rs.175.18 crore and short term borrowings of Rs. 36.45 crore. The interest coverage ratio (ICR) stood at 3.65 times in FY2017 (Provisional) compared to 4.16 times in FY2016. The DSCR stood at 1.71 times in FY2017 (Provisional) compared to 1.73 times in FY2016. Further, VG has ongoing debt funded expansion capex plan of ~ Rs. 140.00 crore which will be part funded by debt of Rs. 103.58 crore. SMERA expects moderation in the debt protection metrices of the group over the near term. However, the overall financial metrics will continue to remain comfortable for rating category.

Weaknesses

- **Susceptible to changes in raw material prices**

The group's margins are susceptible to changes in the prices of cotton yarn, the main raw material. Cotton being 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. However, the purchase price depends on the prevailing demand-supply situation which limits bargaining power with suppliers as well. The EBITDA margin stood at 11.04 percent in FY2017 (Provisional) as against 8.46 percent in the previous year. SMERA believes that VG 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.

- **Intense competition in the industry, shifts in consumer preferences**

The group is exposed to intense competition in the highly fragmented textile industry 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.

- **Project implementation risk**

The group plans to undertake capex in United Polyfab Private Limited, United Polyfab Gujarat Limited and Vinod Fabrics Private Limited of Rs. 139.58 crore to be funded through a term loan of Rs. 103.58 crore with the rest through promoters funds and internal accruals. The debt of the projects under United Polyfab Gujarat Limited and Vinod Fabrics Private Limited has been sanctioned and the project is expected to be completed by March, 2018. However, the loan for the project under United Polyfab Private Limited is yet to be tied up and implementation schedule has not been finalised yet. Hence, the group is exposed to significant project execution risk in case of time and cost overruns or delay in debt tie-up.

Analytical Approach

SMERA 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 Cotfab Private Limited (VCFPL) and United Techfab Private Limited (UTPL) together referred to as the Vinod group. The consolidation is due to the common promoters, shared brand name, and financial synergies within the group.

Outlook: Stable

SMERA believes that the outlook on the Vinod Group (Textile) will remain stable over the medium term. The outlook may be revised to 'Positive' in case the company registers significant increment in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or deterioration in its financial risk profile due to higher than expected debt funded capex plan.

About the Group

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Vinod Group Textiles (VGT), established in 1983 is engaged in the spinning, weaving, processing and trading of textile products and has diversified products including yarn, grey fabric, denim fabric etc. The group undertakes manufacturing, job work and trading in the above activities. Manufacturing contributes around 82 percent to the total revenue, with job work bringing in around 14 percent and the rest from trading. The group comprises Vinod Denim Limited (VDL), Vinod Fabrics Private Limited (VFPL), United Polyfab Private Limited (UPPL), United Polyfab Gujarat Limited (UPGL), Vinod Spinners Private Limited (VSPL) and Vinod Cotfab Private Limited (VCFPL) and United Techfab Private Limited (UTPL). The group was promoted by Mr Mittal and family and has presence of over three decades in the textile industry.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), VGT reported operating income of Rs. 343.45 crore compared to Rs. 289.22 crore in the previous year. Further, the company registered profit after tax (PAT) of Rs. 5.12 crore for FY2016-17 (Provisional) as against Rs. 4.36 crore in the previous year. The tangible networth stood at Rs.110.52 crore as on 31 March, 2017 (Provisional) compared to Rs. 75.72 crore in the previous year.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Consolidation Of Companies - <https://www.smera.in/criteria-consolidation.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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	2.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	10.80	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.94	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	25.06	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	29.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BBB- / Stable
Term loans	Not	Not	Not	19.65	SMERA BBB- /

	Applicable	Applicable	Applicable		Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	14.00	SMERA BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.22	SMERA A3
Proposed	Not Applicable	Not Applicable	Not Applicable	5.33	SMERA BBB- / Stable

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Shashikala Hegde Senior Analyst - Rating Operations Tel: 022-67141321 shashikala.hegde@smera.in	.

ABOUT SMERA

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