

Press Release

United Polyfab Gujarat Limited

March 28, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 140.00 crore bank facilities of United Polyfab Gujarat Limited(UPGL). The outlook is '**Stable**'.

UPGL, an Ahmedabad-based company incorporated in 2010 was promoted by Mr. Mittal and family. The company is engaged in the manufacturing of grey cloth fabric and derives around 86.00 percent of revenue 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 materials (i.e. cotton yarn, synthetic yarn and others) are procured from the local market.

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 Cotfab 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. Extent of consolidation: Full.

Key Rating Drivers

Strengths

• Experienced management and established presence in the textile industry

VFPL 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 texturising 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. Acuité believes the revenues to 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. Acuité 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, Acuité believes that extensive experience of promoters in textile industry 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. Acuité expects 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

Acuité 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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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	Term Loan	Long Term	19.65	ACUITE BBB- Issuer not co-operating*
	Term Loan	Long Term	29.00	ACUITE BBB- Issuer not co-operating*
	Cash Credit	Long Term	6.00	ACUITE BBB- Issuer not co-operating*
	Term Loan	Long Term	14.00	ACUITE BBB- Issuer not co-operating*
	Term Loan	Long Term	9.00	ACUITE BBB- Issuer not co-operating*
	Term Loan	Long Term	25.06	ACUITE BBB- Issuer not co-operating*
	Term Loan	Long Term	10.80	ACUITE BBB- Issuer not co-operating*
	Cash Credit	Long Term	5.00	ACUITE BBB- Issuer not co-operating*
	Bank Guarantee	Short Term	1.22	ACUITE A3 Issuer not co-operating*
	Proposed Long Term Loan	Long Term	5.33	ACUITE BBB- Issuer not co-operating*
	Cash Credit	Long Term	2.00	ACUITE BBB- Issuer not co-operating*

	Bank Guarantee	Short Term	4.00	ACUITE A3 Issuer not co-operating*
	Cash Credit	Long Term	4.00	ACUITE BBB- Issuer not co-operating*
	Term Loan	Long Term	4.94	ACUITE BBB- Issuer not co-operating*
02-Jan-2018	Term Loan	Long Term	19.65	ACUITE BBB-/ Stable (Assigned)
	Term Loan	Long Term	29.00	ACUITE BBB-/ Stable (Assigned)
	Cash Credit	Long Term	6.00	ACUITE BBB-/ Stable (Assigned)
	Term Loan	Long Term	14.00	ACUITE BBB-/ Stable (Assigned)
	Term Loan	Long Term	9.00	ACUITE BBB-/ Stable (Assigned)
	Term Loan	Long Term	25.06	ACUITE BBB-/ Stable (Assigned)
	Term Loan	Long Term	10.80	ACUITE BBB-/ Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB-/ Stable (Assigned)
	Bank Guarantee	Short Term	1.22	ACUITE A3 (Assigned)
	Proposed Long Term Loan	Long Term	5.33	ACUITE BBB-/ Stable (Assigned)
	Cash Credit	Long Term	2.00	ACUITE BBB-/ Stable (Assigned)
	Bank Guarantee	Short Term	4.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	4.00	ACUITE BBB-/ Stable (Assigned))
	Term Loan	Long Term	4.94	ACUITE BBB-/ Stable (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	2.00	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB- /Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	7.10	ACUITE BBB- /Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	4.66	ACUITE BBB- /Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	23.65	ACUITE BBB- /Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	27.37	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- /Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	6.89	ACUITE BBB- /Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	3.17	ACUITE BBB- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB- /Stable (Reaffirmed)

Term loans	Not Applicable	Not Applicable	Not Applicable	14.22	ACUITE BBB- /Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A3 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A3 (Reaffirmed)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	27.44	ACUITE BBB- /Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Rupesh Patel Analyst - Rating Operations Tel: 022 - 49294032 rupesh.patel@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.