



Press Release

United Polyfab Gujarat Limited

November 15, 2019

Rating Downgraded

| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs. 140.00 crore |
| Long Term Rating | ACUITE BB+/ Outlook: Stable (Downgraded from ACUITE BBB-/ Stable) |
| Short Term Rating | ACUITE A4+ (Downgraded from ACUITE A3) |

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A3**' (read as **ACUITE A3**) to the Rs. 140.00 crore bank facilities of UNITED POLYFAB GUJARAT LIMITED (UPGL). The outlook is '**Stable**'.

The rating downgrade is on account of higher-than-expected deterioration in financial risk profile coupled with deterioration in working capital. The margins for the group has been continuously declining since FY2017. The operating margins stood at 10.59 per cent for FY2019 as against 11.36 per cent in the previous year. This has also led to deterioration in coverage indicators marked by interest coverage ratio of 3.10 times for FY2019 (PY: 3.51 times) and Debt/EBITDA of 5.14 times for FY2019 and 4.89 times for FY2018. Further, the working capital of the group has also deteriorated marked by Gross Current Asset (GCA) of 136 days for FY2019 as against 90 days in FY2017. The increase in working capital is majorly on account of increase in inventory days and debtor days. The deterioration in working capital has led to increasing reliance on external borrowing marked by increase in interest cost (3.47% of sales) in FY2019 as that in FY2017 (3.27% of sales). Any further deterioration in working capital leading to higher reliance on external borrowing will impart a negative biased towards the rating.

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 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.

About the Group

Based in Ahmedabad, Vinod group (VG) was established in the year 1983. The group is engaged in spinning, weaving, processing and trading of textile products. The group provides diversified products including yarn, grey fabric and denim fabric, to name a few. The group comprises of seven companies which comprises 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) in the textile division. The group is promoted by Mittal family and has presence of over three decades in the textile industry. Further, VG is having presence in various industries including textile industry, education sector and real estate.

Analytical Approach

Acuite has considered the consolidated business and financial risk profiles of Vinod Spinners Private Limited (VSPL), Vinod Cotfab Private Limited (VCPL), Vinod Fabrics Private Limited (VFPL), Vinod Denim Limited (VDL), United Polyfab Gujarat Limited (UPGL), United Polyfab Private Limited (UPPL) 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

- **Established track record of operations and experienced management**

UPGL is a part of the Vinod group of companies (Textile division) which was established in 1983 by Mr. Mittal and family. The group undertakes warping, sizing and texturizing 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 group is 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. Acuite believes that the extensive experience of the promoters will strengthen the business of the group over the medium term.

- **Healthy revenue profile**

The operating income of the group has improved to Rs. 527.69 crore in FY2019 as compared to Rs. 436.55 crore in FY2018. The group registered a growth of 20.88 per cent Year on Year. The improvement is due to increase in scale of operations, capacity utilization levels and completion of ongoing capex plans. Acuite believes that the revenues may improve further due to increase in capacity utilization level and expansion of geographies.

Weaknesses

- **Deterioration in working capital efficiency**

VG's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 136 days as on March 31, 2019. The company maintains an inventory of around 32 days. On the other hand, the company gets a limited credit period from its suppliers, leading to higher reliance on working capital limits. Further, it allows a credit period of 84 days to its customers. VG's working capital limits over the last six months period through July 2019 was utilized at around 70 per cent. Acuite expects the operations of the company to remain working capital intensive on account of the high credit period offered to the customers.

- **Deterioration in financial risk profile on account of decline in profitability**

The financial risk profile of the group has been continuously deteriorating marked by moderation in coverage indicators despite healthy net worth.

The group's tangible net worth stood at Rs.159.73 crore as on 31 March 2019 as against Rs.137.01 crore as on 31 March 2018. The gearing (debt-equity) stood at 1.83 times as on 31 March 2019 as against 1.87 times in the previous year. The profitability of the group has declined in FY2019 marked by operating profit margin of 10.59 per cent for FY2019 as against 11.36 per cent in the previous year. This has led to moderation in coverage indicators marked by interest coverage ratio of 3.10 times for FY2019 as against 3.51 times for FY2018. Further, the DSCR has significantly deteriorated to 1.35 times for FY2019 (PY: 1.60 times). The decline in profitability has led to limited cushion in repayment. Net Cash Accruals stood at Rs.35.44 crore in FY2019 as against repayment of Rs.21.61 crore.

The group has been following aggressive leverage policy on account of continuous capital expenditure. The group has incurred a capital expenditure to the tune of Rs.240 crore in last three years ending FY2019 as against long term debt outstanding as on 31 March 2019 of ~Rs.220 crore. This has led to deterioration in Debt/EBITDA and TOL/TNW marked by 5.14 times and 2.29 times respectively as on 31 March 2019.

Acuite believes any further decline in profitability of the group leading to deterioration in financial risk profile will impinge a negative bias towards the rating.

• **Susceptibility to volatility in raw material prices and forex rates**

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 organized and unorganized 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.

Rating Sensitivity

- Significant improvement in profitability of the group leading to improvement in financial risk profile.
- Deterioration in its working capital management with GCA days of more than 150 days.
- Increase in debt levels, resulting in further deterioration of financial risk profile.

Material Covenants

None

Liquidity: Stretched

The group has stretched liquidity profile marked by limited cushion in net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 35.44 crore for FY2019 as against maturing debt obligations of around Rs. 21.61 crore for the same period. The cash accruals of the group are estimated to remain around Rs. 40 crore to Rs. 50 crore during FY2020-22 against repayment obligations ranging from Rs. 25-30 crore, thus giving a limited cushion for repayment. VG's working capital operations has deteriorated in FY2019 marked by significant increase in Gross Current Asset (GCA) days to 136 in FY2019 from 90 in FY2017. The increase in GCA has led to higher reliance in external borrowings indicated by significant increase in interest cost in FY2019 when compared to FY2017. The current ratio stood at 1.47 times as on 31 March, 2019. The group maintains unencumbered cash and bank balances of Rs. 3.11 crore as on 31 March, 2019. The management has been following aggressive leverage policy for meeting its continuous capital expenditure. Acuite believes that the liquidity of the group is likely to remain stretched over the medium term on account of moderate cash accruals against debt repayments over the medium term.

Outlook: Stable

Acuite believes that VG will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to its 'extensive experience of promoters'. The outlook may be revised to 'Positive', if the group demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' if the group generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or deterioration in working capital leading to higher reliance on external borrowings thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|------------------|------------------|------------------|
| Operating Income | Rs. Cr. | 527.69 | 436.55 | 343.87 |
| EBITDA | Rs. Cr. | 55.89 | 49.60 | 38.36 |
| PAT | Rs. Cr. | 7.45 | 7.13 | 5.18 |
| EBITDA Margin | (%) | 10.59 | 11.36 | 11.15 |
| PAT Margin | (%) | 1.41 | 1.63 | 1.51 |
| ROCE | (%) | 6.74 | 6.86 | 7.23 |
| Total Debt/Tangible Net Worth | Times | 1.83 | 1.87 | 1.68 |
| PBDIT/Interest | Times | 3.10 | 3.51 | 3.56 |
| Total Debt/PBDIT | Times | 5.14 | 4.89 | 5.02 |
| Gross Current Assets (Days) | Days | 136 | 121 | 90 |

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to previous three years)

| Date | Name of the instrument/ facilities | Term | Amount (Rs. Cr.) | Ratings/ Outlook |
|----------------|------------------------------------|-----------|---------------------|-------------------------------------|
| March 28, 2019 | Cash Credit | Long-term | 2.00 | ACUITE BBB-/ Stable (Reaffirmed) |
| | Cash Credit | Long-term | 7.00 | ACUITE BBB-/ Stable (Reaffirmed) |
| | Term Loans | Long-term | 7.10 | ACUITE BBB-/ Stable (Reaffirmed) |
| | Term Loans | Long-term | 4.66 | ACUITE BBB-/ Stable (Reaffirmed) |
| | Term Loans | Long-term | 23.65 | ACUITE BBB-/ Stable (Reaffirmed) |
| | Term Loans | Long-term | 27.37 | ACUITE BBB-/ Stable (Reaffirmed) |

| | | | | |
|------------------|-----------------------------|------------|-------|-------------------------------------|
| | Cash Credit | Long-term | 5.00 | ACUITE BBB-/ Stable (Reaffirmed) |
| | Term Loans | Long-term | 6.89 | ACUITE BBB-/ Stable (Reaffirmed) |
| | Term Loans | Long-term | 3.17 | ACUITE BBB-/ Stable (Reaffirmed) |
| | Cash Credit | Long-term | 6.00 | ACUITE BBB-/ Stable (Reaffirmed) |
| | Term Loans | Long-term | 14.22 | ACUITE BBB-/ Stable (Reaffirmed) |
| | Bank Guarantee | Short-term | 4.00 | ACUITE A3 (Reaffirmed) |
| | Bank Guarantee | Short-term | 1.50 | ACUITE A3 (Reaffirmed) |
| | Proposed Long-Term facility | Long-term | 27.44 | ACUITE BBB-/ Stable (Reaffirmed) |
| January 16, 2019 | Term Loans | Long-term | 19.65 | ACUITE BBB-Issuer not co-operating* |
| | Term Loans | Long-term | 29.00 | ACUITE BBB-Issuer not co-operating* |
| | Cash Credit | Long-term | 6.00 | ACUITE BBB-Issuer not co-operating* |
| | Term Loans | Long-term | 14.00 | ACUITE BBB-Issuer not co-operating* |
| | Term Loans | Long-term | 9.00 | ACUITE BBB-Issuer not co-operating* |
| | Term Loans | Long-term | 25.06 | ACUITE BBB-Issuer not co-operating* |
| | Term Loans | Long-term | 10.80 | ACUITE BBB-Issuer not co-operating* |
| | Cash Credit | Long-term | 5.00 | ACUITE A3 Issuer not co-operating* |
| | Bank Guarantee | Short-term | 1.22 | ACUITE A3 Issuer not co-operating* |
| | Proposed Long-Term facility | 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 Loans | Long-term | 4.94 | ACUITE BBB-Issuer not co-operating* |
| January 02, 2018 | Term Loans | Long-term | 19.65 | ACUITE BBB-/ Stable (Assigned) |
| | Term Loans | Long-term | 29.00 | ACUITE BBB-/ Stable (Assigned) |

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|--|-----------------------------|------------|-------|--------------------------------|
| | Cash Credit | Long-term | 6.00 | ACUITE BBB-/ Stable (Assigned) |
| | Term Loans | Long-term | 14.00 | ACUITE BBB-/ Stable (Assigned) |
| | Term Loans | Long-term | 9.00 | ACUITE BBB-/ Stable (Assigned) |
| | Term Loans | Long-term | 25.06 | ACUITE BBB-/ Stable (Assigned) |
| | Term Loans | 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 facility | 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 Loans | 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 BB+/ Stable (Downgraded from ACUITE BBB-) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 7.00 | ACUITE BB+/ Stable (Downgraded from ACUITE BBB-) |
| Term Loans | Not Applicable | Not Applicable | Not Applicable | 7.10 | ACUITE BB+/ Stable (Downgraded from ACUITE BBB-) |
| Term Loans | Not Applicable | Not Applicable | Not Applicable | 4.66 | ACUITE BB+/ Stable (Downgraded from ACUITE BBB-) |
| Term Loans | Not Applicable | Not Applicable | Not Applicable | 23.65 | ACUITE BB+/ Stable (Downgraded from ACUITE BBB-) |
| Term Loans | Not Applicable | Not Applicable | Not Applicable | 27.37 | ACUITE BB+/ Stable (Downgraded from ACUITE BBB-) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE BB+/ Stable (Downgraded from ACUITE BBB-) |

| | | | | | |
|-----------------------------|----------------|----------------|----------------|-------|---|
| Term Loans | Not Applicable | Not Applicable | Not Applicable | 6.89 | ACUITE BB+/ Stable (Downgraded from ACUITE BBB-) |
| Term Loans | Not Applicable | Not Applicable | Not Applicable | 3.17 | ACUITE BB+/ Stable (Downgraded from ACUITE BBB-) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 6.00 | ACUITE BB+/ Stable (Downgraded from ACUITE BBB-) |
| Term Loans | Not Applicable | Not Applicable | Not Applicable | 14.22 | ACUITE BB+/ Stable (Downgraded from ACUITE BBB-) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 4.00 | ACUITE A4+ (Downgraded from ACUITE A3) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 1.50 | ACUITE A4+ (Downgraded from ACUITE A3) |
| Proposed Long-Term facility | Not Applicable | Not Applicable | Not Applicable | 27.44 | ACUITE BB+/ Stable (Downgraded from ACUITE BBB-) |

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