

Press Release

VAIBHAVLAXMI SPINNING MILLS LIMITED

May 29, 2019



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 68.00 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**) and short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 66.50 crore bank facilities of VAIBHAVLAXMI SPINNING MILLS LIMITED (VSML). The outlook is '**Stable**'.

Also, Acuité has assigned short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 1.50 crore bank facilities of VSML.

Part of the Vaibhavlaxmi Group, VSML, incorporated in 2013 by Mr. Rameshbhai Patel, Mr. Niranjanbhai Patel and Mr. Ashishbhai Patel is engaged in the manufacturing of cotton yarn at Gujarat. The company has annual spindle capacity of 29, 184. The group consists of four other companies viz. Vaibhavlaxmi Exports Private Limited, Vaibhav Laxmi Industries, R.I. Cotton Private Limited and Vaibhavlaxmi Spintex LLP that are engaged in cotton ginning, spinning, trading, export and extraction of cotton oil seeds.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Vaibhavlaxmi Spinning Mills Limited, Vaibhavlaxmi Exports Private Limited, Vaibhav Laxmi Industries, R.I. Cotton Private Limited and Vaibhavlaxmi Spintex LLP together referred to as the 'Vaibhavlaxmi Group' (VG) to arrive at the rating. The consolidation is in view of the similarities in the lines of business, operational and financial synergies and common management. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

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

The group has established operational track record of four decades. This has helped maintain long standing relations with customers and suppliers. The group also benefits from its experienced promoters, Mr. Rameshbhai Patel, Mr. Niranjanbhai Patel and Mr. Ashishbhai Patel who collectively possess around three decades of experience in the cotton business.

- **Moderate financial risk profile**

The financial risk profile of the group has remained moderate marked by tangible net worth of Rs. 106.10 crore (Provisional) as on 31 March, 2019 (PY: Rs. 79.37 crore). The gearing stood moderate at 2.30 times (Provisional) as on 31 March, 2019 (PY: 2.76 times) considering the additional term loan in the books. The total debt of Rs. 244.07 crore (Provisional) outstanding as on 31 March, 2019 comprise Rs. 137.28 crore as secured term loan, Rs. 9.45 crore as unsecured loans from the promoters and Rs. 97.34 crore as working capital borrowings from the bank. The interest coverage ratio stood at stood at 2.28 times (Provisional) in FY2019 (PY: 3.13 times). ICR has declined on account of significant increase in interest cost. The net cash accruals improved to Rs. 31.77 crore (Provisional) in FY2019 (PY: Rs. 22.08 crore).

- **Healthy revenue growth**

The revenues of the group have grown consistently and stood at Rs. 434.24 crore in FY2018 as against Rs. 296.00 crore in FY2017. Vaibhavlaxmi Spintex LLP commenced COD for manufacturing of yarn in September, 2017 (For FY2017 it had done only trading of yarn) which has contributed Rs. 108.00 crores in the total revenues of the group for FY2018.

Further the group has registered revenues of Rs. 854.70 crore (Provisional) in FY2019. The revenues have grown significantly in FY2019 on account of capacity addition in Vaibhav laxmi Spintex LLP to 29184 spindles (Previous capacity of 27360 spindles) also the company has done conversion of compact in Vaibhav laxmi Spinning Mills Limited which has improved the efficiency in that unit by 12-13%. This capex was done in October, 2018.

Weaknesses

- **Working Capital Intensity**

The working capital cycle of the group has deteriorated in FY2018 as compared to FY2017 marked by high GCA of 247 days in FY2018 (PY: 167 days). GCA has increased majorly on account of increase in receivable days to 159 in FY2018 (PY: 74 days). Receivables increased in FY2018 majorly on account of delay in realization of export bills from few customers. For FY2019 the receivable days improved to 44 days due to better realization from the export receivables. The group was facing issues with discounting the export bills and hence it has availed FBN facility of Rs. 14.00 crore from banks. In order to further reduce the debtor days the group has started with advance payment terms for domestic market.

The inventory holding period remained at 46 days in FY2018 (PY: 45 days). In FY2019 it stood at 31 days. Further due to delay in receivables, the suppliers were also stretched at 127 days in FY2018 (PY: 49 days). The average utilization of the bank limits stood at 94% for the last six months ended March, 2019.

- **Declining profitability trend**

The company registered declining operating margin trend in the last four years. The margins registered a decline to 6.57 per cent (Provisional) in FY2019 from 7.34 per cent in FY2018, 10.58 per cent in FY2017 and 10.23 per cent in FY2016. The operating profitability declined on account of significant increase in cotton prices and also due to intense competition which is not completely being passed to the customers. The net profitability margins declined to 0.22 per cent in FY2018 (PY: 1.96%). The profitability declined on account of increase in depreciation cost in FY2018 over FY2017 on account of Vaibhav laxmi Spintex LLP being operational in FY2018 and also decline in operating profitability in FY2018. Further the net profitability margin of the group improved to 1.70 per cent for FY2019 (Provisional).

Liquidity Position

The group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.10.48 to 31.77 crore during the four years through 2016-19, while its maturing debt obligations were in the range of Rs.6.62 to 12.93 crore over the same period. The cash accruals of the company are estimated to remain around Rs.32.50 to 49.41 crore during 2010-22 while its repayment obligation are estimated to be around Rs. 16.10 Crore. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 101 in FY 2019. This has led to moderate reliance on working capital borrowings, the cash credit limit in the company remains utilized at ~94 percent during the last 6 months period ended March 2019. The company maintains unencumbered cash and bank balances of Rs.1.32 crore as on March 31, 2019. The current ratio of the company stand healthy at 1.55 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual over the medium term.

Outlook: Stable

Acuite believes that the group will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while maintaining comfortable 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 Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	854.70	434.34	296.00
EBITDA	Rs. Cr.	56.12	31.88	31.32
PAT	Rs. Cr.	14.51	0.98	5.79
EBITDA Margin	(%)	6.57	7.34	10.58
PAT Margin	(%)	1.70	0.22	1.96
ROCE	(%)	12.21	4.65	12.12
Total Debt/Tangible Net Worth	Times	2.30	2.76	2.28
PBDIT/Interest	Times	2.28	3.13	2.03
Total Debt/PBDIT	Times	4.29	6.76	3.99
Gross Current Assets (Days)	Days	101	247	167

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

None

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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
24-Feb-2018	Cash Credit	Long Term	10.00	ACUITE BBB / Stable (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	32.65	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	13.58	ACUITE BBB / Stable (Assigned)
	Bank guarantee/Letter of Guarantee	Short Term	2.40	ACUITE A3+ (Assigned)
	Bank guarantee/Letter of Guarantee	Short Term	1.10	ACUITE A3+ (Assigned)
	Proposed Bank Facility	Long Term	0.27	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	11.50	ACUITE BBB / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	27.05	ACUITE BBB / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	11.14	ACUITE BBB / Stable (Reaffirmed)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A3+ (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.40	ACUITE A3+ (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.10	ACUITE A3+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.31	ACUITE BBB / Stable (Reaffirmed)

Cash Credit Facility of Rs. 11.50 crore includes sublimit of working capital demand loan of Rs. 10.00 crore

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Aishwarya Phalke Senior Analyst - Rating Operations Tel: 022-49294054 aishwarya.phalke@acuiteratings.in	

About Acuité Ratings & Research:

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