

Press Release

Vaibhavlaxmi Spintex LLP

28 February, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 102.30 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 triple B) and short term rating of '**SMERA A3+**' (read as SMERA A three plus) on the Rs. 102.30 crore bank facilities of Vaibhavlaxmi Spintex LLP (VSLLP). The outlook is '**Stable**'.

Part of the Vaibhavlaxmi Group, VSLLP, incorporated in 2016 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 27,500. The group consists of four other companies viz. Vaibhavlaxmi Exports Private Limited, Vaibhav Laxmi Industries, R.I. Cotton Private Limited and Vaibhavlaxmi Spinning Mills Limited that are engaged in cotton ginning, spinning, trading, export and extraction of cotton oil seeds.

Analytical approach:

SMERA 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.

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.

Comfortable financial risk profile and liquidity profile: The group has a comfortable financial risk profile marked by net worth of Rs. 57.20 crore as on 31 March, 2017 compared to Rs. 54.53 crore as on 31 March, 2016. The gearing stood at 2.28 times as on 31 March, 2017 as against 2.73 times as on 31 March, 2016. The total debt of Rs. 130.51 crore comprises term loan of Rs. 52.64 crore from banks, interest bearing unsecured loans from related parties of Rs. 6.95

crore and working capital funds of Rs. 70.92 crore as on 31 March, 2017. The Interest Coverage ratio stood at 2.03 times in FY2017 as against 1.83 times in FY2016. This is mainly due to improvement in profitability in FY2017. The net cash accruals stood at Rs.14.69 crore as against repayment obligation of Rs.5.52 crore in FY2017.

The operating cycle of the company is elongated as the Gross Current Asset (GCA) days stood at 167 for FY2016 as against 240 days for FY2017. However, the company maintains comfortable liquidity profile as the average cash credit limit utilisation stood at around 83 percent for the last six months ended January, 2018.

Going forward, SMERA expects the company to maintain its financial risk profile and improve its networth in the absence of major debt funded capex plan.

Healthy revenue growth and profitability: The group has been growing at a CAGR of 16.72 per cent from FY2015 to FY2017. It earned revenue of Rs. 296.00 crore in FY2017 and has achieved gross revenue of Rs. 363.62 crore from April to January, 2018 (Provisional). The operating margins have remained in the range of 2.35 per cent to 10.60 per cent in the past three years ended FY2017. The operating margins improved in FY2017 to 10.58 per cent from 10.23 per cent in FY2016.

Proximity to raw materials: The group has its operations in Gujarat, one of the major cotton producing regions in India. Hence, the company benefits from proximity to raw materials.

Weaknesses

Volatility in raw material prices and government regulations: Cotton prices are highly regulated by the government through MSP (Minimum Support Price). However, the purchase and selling prices depend on the prevailing demand-supply situation restricting bargaining power with suppliers and customers. Any adverse movement of cotton prices further impacts profitability.

The profitability is also susceptible to the cost of power which constitutes around 5 percent of the total cost for a textile unit. SMERA believes that VSML 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 as well as foreign market.

Agro climatic risks: Cotton is a seasonal crop and the production of the same is highly dependent upon the monsoon. Thus, inadequate rainfall may affect the availability of cotton in adverse weather conditions.

Intense competition in the textile industry: The company is exposed to intense competition in the highly fragmented textile industry. The company also faces stiff competition from organised and unorganised players in the domestic market and also from other nations wherein production costs are lower, offering cheaper labour and ease of-doing business.

Outlook - Stable

SMERA believes that VSLLP 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	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	296.00	248.36	186.14
EBITDA	Rs. Cr.	31.32	25.40	4.37
PAT	Rs. Cr.	5.79	0.77	0.33
EBITDA Margin	(%)	10.58	10.23	2.35
PAT Margin	(%)	1.96	0.31	0.18
ROCE	(%)	12.12	9.69	7.85
Total Debt/Tangible Net Worth	Times	2.28	2.73	2.28
PBDIT/Interest	Times	2.03	1.83	1.26
Total Debt/PBDIT	Times	3.99	5.76	15.09
Gross Current Assets (Days)	Days	167	240	162

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Trading Entities - <https://www.smerra.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

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

None

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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.20*	SMERA BBB/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00**	SMERA BBB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	55.50#	SMERA BBB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	27.00	SMERA BBB/ Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.60^	SMERA A3+ (Assigned)

*includes sub-limit of WCDL to the extent of Rs. 5.00 crore

#includes sub-limit of Project LC to the extent of Rs. 48.00 crore

^includes sub-limit of forward contract to the extent of Rs. 0.42 crore

**includes sub-limit of WCDL to the extent of Rs.2.50 crore

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ABOUT SMERA

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