

## Press Release

### VAIBHAVLAXMI SPINTEX LLP

May 29, 2019

### Rating Reaffirmed and Assigned



|                                     |                              |
|-------------------------------------|------------------------------|
| <b>Total Bank Facilities Rated*</b> | Rs. 102.30 Cr.               |
| <b>Long Term Rating</b>             | ACUITE BBB / Outlook: Stable |
| <b>Short Term Rating</b>            | ACUITE A3+                   |

\* Refer Annexure for details

### Rating Rationale

Acuite 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. 86.20 crore bank facilities of VAIBHAVLAXMI SPINTEX LLP (VSLLP). The outlook is '**Stable**'.

Also, Acuite has assigned short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 16.18 crore bank facilities of VSLLP.

Part of the Vaibhavlaxmi Group, VSLLP, incorporated in 2016 by Mr. Rameshbhai Patel, Mr. Niranjambhai 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

Acuite 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. Niranjambhai 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 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 Vaibhavluxmi Spintex LLP to 29184 spindles (Previous capacity of 27360 spindles) also the company has done conversion of compact in Vaibhavluxmi 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 Vaibhavluxmi 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 49.41crore 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>
- 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                |
|-------------|------------------------------------|------------|------------------|--------------------------------|
| 28-Feb-2018 | Cash Credit                        | Long Term  | 13.20*           | ACUITE BBB / Stable (Assigned) |
|             | Cash Credit                        | Long Term  | 5.00**           | ACUITE BBB / Stable (Assigned) |
|             | Term Loan                          | Long Term  | 55.50#           | ACUITE BBB / Stable (Assigned) |
|             | Term Loan                          | Long Term  | 27.00            | ACUITE BBB / Stable (Assigned) |
|             | Bank guarantee/Letter of Guarantee | Short Term | 1.60^            | ACUITE 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

### \*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 | 5.00                        | ACUITE BBB / Stable (Reaffirmed) |
| Term Loan                          | Not Applicable   | Not Applicable | Not Applicable | 43.41                       | ACUITE BBB / Stable (Reaffirmed) |
| Term Loan                          | Not Applicable   | Not Applicable | Not Applicable | 24.61                       | ACUITE BBB / Stable (Reaffirmed) |
| Standby Line of Credit             | Not Applicable   | Not Applicable | Not Applicable | 1.70                        | ACUITE A3+ (Assigned)            |
| Bank guarantee/Letter of Guarantee | Not Applicable   | Not Applicable | Not Applicable | 1.60                        | ACUITE A3+ (Reaffirmed)          |
| Proposed Bank Facility             | Not Applicable   | Not Applicable | Not Applicable | 14.48                       | ACUITE BBB / Stable (Assigned)   |

### Contacts

| Analytical                                                                                                                                                                                                                                                                                                                                                | Rating Desk                                                                                                                             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| <p>Aditya Gupta<br/>Head - Corporate and Infrastructure Sector Ratings<br/>Tel: 022-49294041<br/><a href="mailto:aditya.gupta@acuute.in">aditya.gupta@acuute.in</a></p> <p>Aishwarya Phalke<br/>Senior Analyst - Rating Operations<br/>Tel: 022-49294054<br/><a href="mailto:aishwarya.phalke@acuiteratings.in">aishwarya.phalke@acuiteratings.in</a></p> | <p>Varsha Bist<br/>Manager - Rating Desk<br/>Tel: 022-67141160<br/><a href="mailto:rating.desk@acuute.in">rating.desk@acuute.in</a></p> |

### 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](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.