

Press Release

Vaibhavlaxmi Spintex LLP

July 20, 2020

Rating Withdrawn



Total Bank Facilities Rated*	Rs. 102.30 Cr.
Long Term Rating	ACUITE BBB- (Downgraded from ACUITE BBB/Stable and Withdrawn)
Short Term Rating	ACUITE A3 (Downgraded from ACUITE A3+ and Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded and withdrawn the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.102.30 crore bank facilities of Vaibhavlaxmi Spintex LLP (VSLLP). The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating.

The rating is being withdrawn on account of request received from the company and NOC received from the banker.

The rating action is on account of limited information availability.

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

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 & experienced management**

The group has established an 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. Niranjanshai 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. 127.54 crore (Provisional) as on 31 March, 2020 (PY: Rs. 111.24 crore). The gearing stood moderate at 1.58 times (Provisional) as on 31 March, 2020 (PY: 2.21 times). The total debt of Rs. 201.24 crore (Provisional) outstanding as on 31 March, 2020 comprise Rs. 0.51 crore as a secured term loan, Rs. 15.34 crore as unsecured loans from the promoters and Rs. 185.39 crore as working capital borrowings from the bank. The interest coverage ratio stood at 2.39 times (Provisional) in FY2020 (PY: 2.85 times). ICR has declined on account of a significant increase in interest cost.

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. 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 as well as foreign market.

• Agro climatic risks and intense competition in the textile industry

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. Also, the group is exposed to intense competition in the highly fragmented textile industry. The group 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.

Rating Sensitivities

Not Applicable

Material Covenants

None

Liquidity Position: Adequate

The group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.14.69 to 33.63 crore during the four years through 2017-20, while its maturing debt obligations were in the range of Rs.5.52 to 18.80 crore over the same period. The group has availed the moratorium from its lenders amidst the COVID-19 situation. The group maintains unencumbered cash and bank balances of Rs.6.91 crore (Provisional) as on March 31, 2020. The current ratio of the group stand at 1.00 times (Provisional) as on March 31, 2020. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual over the medium term.

Outlook

Not Applicable

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	1102.52	805.21
PAT	Rs. Cr.	13.97	12.98
PAT Margin	(%)	1.27	1.61
Total Debt/Tangible Net Worth	Times	1.58	2.21
PBDIT/Interest	Times	2.39	2.85

Note: The inter group transactions for FY2020 is not available with Acuite

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
29-May-2019	Cash Credit	Long Term	11.50	ACUITE BBB/Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB/Stable (Reaffirmed)
	Term loans	Long Term	43.41	ACUITE BBB/Stable (Reaffirmed)
	Term loans	Long Term	24.61	ACUITE BBB/Stable (Reaffirmed)
	Standby Line of Credit	Short Term	1.70	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	1.60	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Long Term	14.48	ACUITE BBB/Stable (Assigned)
28-Feb-2018	Cash Credit	Long Term	13.20	ACUITE BBB/Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB/Stable (Assigned)
	Term loans	Long Term	55.50	ACUITE BBB/Stable (Assigned)
	Term loans	Long Term	27.00	ACUITE BBB/Stable (Assigned)
	Bank Guarantee	Short Term	1.60	ACUITE A3+ (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- (Downgraded and Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- (Downgraded and Withdrawn)
Term loans	Not Applicable	Not Applicable	Not Applicable	43.41	ACUITE BBB- (Downgraded and Withdrawn)
Term loans	Not Applicable	Not Applicable	Not Applicable	24.61	ACUITE BBB- (Downgraded and Withdrawn)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	1.70	ACUITE A3 (Downgraded and Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.60	ACUITE A3 (Downgraded and Withdrawn)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	14.48	ACUITE BBB- (Downgraded and Withdrawn)

Contacts

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About Acuité Ratings & Research:

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