

Press Release

Vivekanand Cotspin LLP

October 03, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 60.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs.60.00 crore bank facilities of VIVEKANAND COTSPIN LLP (VCL). The outlook is '**Stable**'.

VCL, established in 2015 by Patel family, is engaged in the business of cotton ginning and spinning. VCL has an installed capacity of 57 tons per month of cotton bales and 16 tons per month of cotton yarn. The firm also has two group associates, Ambica Cotseeds Limited and Vivekanand Cotspin LLP, managed by the same Promoters and Directors.

Analytical Approach

Acuite has considered the consolidated business and financial risk profile of Vivekanand Industries (VI), Vivekanand Cotspin LLP (VCL) and Ambica Cotseeds Limited (ACL), hereby referred to as Vivekanand Group, on account of similar line of business, common management and significant operational synergies between the entities. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management and proximity to raw material**

Vivekanand Group was established by Mr. Bharat Patel and Mr. Vishnu Patel, back in 1983. Both of the partners remain to continue to be actively involved in the business. Mr. Nirav Patel has joined the firm in 2008 and is currently heading the operations. Acuite believes that the group will continue to benefit from the experience and established industry network of its promoters. Further, the operations of the group are based in Mehsana, Gujarat, which is one of the major cotton producer states in the country. Thus, the group has advantage of proximity to raw material that translates in uninterrupted supply of raw material and easy reach to customers.

- **Moderate financial risk profile**

Vivekanand Group has a moderate financial risk profile marked by a healthy net worth of Rs. 58.91 crore as on March 31, 2018 (Provisional) against Rs. 51.47 crore as on March 31, 2017. The improvement in net worth is attributable to healthy accretion of reserves over the period. The gearing stood moderate at 1.50 times as on March 31, 2018 (Provisional) against 1.89 times as on March 31, 2017. The total debt as on March 31, 2018 (Provisional) stood at Rs. 88.56 crore including Rs. 57.76 crore of long-term loans from the bank, Rs.12.24 crore of unsecured loans from the promoters and Rs.18.56 crore of short-term facility from the bank. The net cash accruals stood at Rs.17.28 crore in FY2018 (Provisional) against a debt obligation of Rs.8.00 crore. The interest coverage ratio stood moderate at 2.76 times in FY2018 (Provisional) against 1.79 times in the previous year. The total outside liabilities to total net worth ratio stood at 2.64 times as on March 31, 2018 (Provisional) against 2.00 times as on March 31, 2017. Acuite believes that the company will be able to sustain a moderate financial risk profile on the back of stable revenue growth.

Weaknesses

- **Modest profitability and presence in a highly competitive industry**

The group has recorded low operating profitability as reflected in EBITDA margin of 3.75 per cent in FY2019 (Provisional) as compared to 4.37 per cent in FY2018. The operating profitability is low on

account of trading nature of operations of ACL that contributes majority of the turnover to the group. Further, the group operates in a highly fragmented and competitive industry marked by presence of various organized and unorganized players that puts pressure on the margins. Acuite believes the profitability of the group will continue to be modest on account of majority of turnover being received from trading nature of operations.

• High competition and volatility in raw material prices

Vivekanand Group operates in textile industry, which is highly competitive and marked by presence of large number of unorganized players. The main raw material used is cotton, prices of which is highly fluctuating and depends upon the monsoon. Thus, the group is exposed to fluctuations in raw material prices of cotton. Further, prices of cotton are regulated by the government that assigns a Minimum Support Price (MSP) and any adverse moments in MSP will have impact on margins.

Rating Sensitivities

- Profits susceptible to raw material prices.
- Improvement in financial risk profile

Material covenants

None

Liquidity position

The group has adequate liquidity marked by moderate net cash accruals to maturing debt obligations. The group generated cash accruals of Rs. 1.01 crore to Rs. 1.83 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs. 0.26 crore to Rs. 0.52 crore for the same period. The cash accruals of the group are estimated to remain around Rs. 2.8 crore to Rs. 3.7 crore during 2019-21, while its repayment obligations are estimated to be Nil. The cash accruals comfortable to service its repayment obligations, while supporting 100 per cent of the routine capex and incremental working capital requirements. The group's operations are moderately working capital intensive but the company has kept moderate reliance on working capital borrowings. The cash credit limit in the group remains utilized at 80 per cent during the last 6 months period ended July 2019. The group maintains unencumbered cash and bank balances of Rs. 2.03 crore as on March 31, 2019 (Provisional). The current ratio of the group stood healthy at 1.56 times as on March 31, 2019 (Provisional). The group is not likely to incur any major capex to be funded by external borrowing. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of no major repayments over the medium term.

Outlook: Stable

Acuite believes that Vivekanand Group will maintain a 'Stable' outlook and continue to benefit from the experience of its promoters. The outlook may be revised to 'Positive' if the firm reports significant improvement in revenue, while improving its profitability and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue, profitability or stretch in its working capital cycle, resulting in deterioration in its financial risk profile.

About the Group

Vivekanand Group came into existence with the establishment of Vivekanand Industries in 1983 by the Patel family. The group started its operations with cotton ginning and pressing. In 2010, ACL was incorporated with the prime purpose to export cotton yarn and bales. Having established themselves in the market, the promoters started their own spinning unit by the establishment of VCL in 2015. ACL is engaged in the exports of cotton bales (80 per cent of total revenue), cotton yarn (15 per cent of total revenue) and cotton waste (5 per cent of total revenue). ACL exports ~90 per cent of its products to countries like China, Bangladesh, Vietnam, Thailand, Taiwan, Japan, and some countries in Europe and America. The remaining is sold in the domestic market in Gujarat. Gujrat-based VI, was established in 1983. VI is managed by Partners Mr. Bharatbhai Patel and Mr. Vishnubhai Patel. The firm is engaged in cotton ginning & pressing and trading of cotton bales and seeds.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	741.66	577.96	363.99
EBITDA	Rs. Cr.	27.79	25.26	15.73
PAT	Rs. Cr.	6.84	4.19	1.48
EBITDA Margin	(%)	3.75	4.37	4.32
PAT Margin	(%)	0.92	0.73	0.41
ROCE	(%)	12.20	9.14	13.39
Total Debt/Tangible Net Worth	Times	1.68	1.90	1.89
PBDIT/Interest	Times	2.32	2.66	1.79
Total Debt/PBDIT	Times	3.43	4.08	5.19
Gross Current Assets (Days)	Days	57	93	63

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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 (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-Oct-2018	Term Loan	Long Term	54.00	ACUITE BB+ / Stable (Assigned)
	Cash Credit	Long Term	6.00	ACUITE BB+ / 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	6.00	ACUITE BB+ / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	54.00	ACUITE BB+ / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Sushmita Murai Analyst - Rating Operations Tel: 022-49294045 sushmita.murai@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

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