

Press Release

Vivekanand Cotspin LLP

December 29, 2020



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.60.00 Cr.
Long Term Rating	ACUITE BB+/Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and has assigned the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.60.00 crore bank facilities of Vivekanand Cotspin LLP. The outlook is '**Stable**'.

About the Company

Vivekanand Cotspin LLP (VCL) is a Gujarat based firm established in 2015. The firm is promoted by Patel family and is engaged in the business of cotton ginning and spinning. VCL has an installed capacity of 400 bales per day and 25000 spindles. The firm also has two group associates, Ambica Cotseeds Limited and Vivekanand Industries, managed by the same Promoters and Directors.

Analytical Approach

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

About the Group Entities

Vivekanand Industries

VI was established in 1983 by the Patel family. The firm is engaged in cotton ginning, pressing and extraction of oil cakes. The company has 52 DR machines with an installed capacity to manufacture 500 bales per day with an average capacity utilization of 98 percent and 11 expellers with an installed capacity to produce 1100 bags of 60 kg/day of cotton oil cakes with an average capacity utilization of 98 percent. Being located in Gujarat, VI is able to procure good quality raw material from Gujarat (Saurashtra).

Ambica Cotseeds Limited

ACL is a Gujarat based company incorporated in 2010. It is engaged in the exports of cotton bales, cotton yarn and cotton waste. ACL exports to Pakistan (Sole Agency), China (Sole Agency), Bangladesh, Vietnam, Thailand, Taiwan, Japan, Europe and America. The remaining is sold in the domestic market in Gujarat.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

VG was established in 1983. The group was established by Mr. Bharat Patel and Mr. Vishnu Patel. Both the partners have more than three decades of experience and still continue to actively participate in the business. Mr. Nirav Patel has joined the firm in 2008 and is currently heading the operations. Further, the operations of the group are based in Mehsana, Gujarat, which is one of the major cotton producer states in the country.

Acuite believes that the group will continue to benefit from its proximity to raw material and the partners'

experience and its established presence in the industry, improving its business risk profile over the medium term.

- **Moderate financial risk profile**

The group's financial risk profile is marked by moderate net worth, gearing (debt-equity) and debt protection metrics. The tangible net worth of the group stood at Rs.46.95 crore as on 31 March, 2020 (Provisional) as against Rs.62.51 crore as on 31 March, 2019. The total debt of Rs.89.35 crore as on 31 March, 2020 (Provisional) consist of long term borrowings of Rs.35.21 crore, unsecured loans from promoters of Rs.17.81 crore and short term borrowing of Rs.36.34 crore. The gearing (debt-equity) stood at 1.90 times as on 31 March, 2020 (Provisional) as compared to 1.69 times as on 31 March, 2019. The Interest Coverage Ratio stood at 1.91 times for FY2020 (Provisional) as against 2.23 times for FY2019. Total Outside Liabilities/Total Net Worth (TOL/TNW) stood low at 2.27 times as on 31 March, 2020 (Provisional) as against 2.11 times as on 31 March, 2019. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.12 times for FY2020 (Provisional). Debt Service Coverage Ratio (DSCR) stood at 1.10 times in FY2020 (Provisional) as against 1.27 times in FY2019. The decline in capital is due to the withdrawal of capital by the group for building warehouses. This has impacted the financial risk profile mainly driven by moderation in Debt to Equity levels and Total Outside Liabilities/Total Net Worth (TOL/TNW) levels.

Acuite believes that the group will be able to maintain a moderate financial risk profile over the medium term.

- **Efficient working capital cycle**

The group has an efficient working capital cycle marked by Gross Current Assets (GCA) days of 41 days in FY2020 (Provisional) and 49 days in FY2019. The receivable days stood at 11 days in FY2020 (Provisional) as against 10 days in FY2019. The inventory days stood at 20 days in FY2020 (Provisional) as against 24 days in FY2019. The average bank limit utilisation stood low at ~28.00 percent for the past eight months ending November 2020.

Acuite believes that efficient working capital management will be crucial to the group in order to maintain a healthy risk profile.

Weaknesses

- **Declining scale of operations and profitability margin**

The group has experienced a decline in the scale of operations and has recorded a revenue of Rs.865.61 crore in FY2020 (Provisional) as against Rs.953.24 crore in FY2019. The revenue of the firm has declined by around 9.2 percent from the previous year. Also, the operating margin of the group declined and stood at 2.41 per cent in FY2020 (Provisional) as compared to 3.03 per cent in FY2019. The operating profitability is low on account of trading nature of operations of ACL that contributes majority of the turnover to the group. PAT margin stood low at 0.22 percent in FY2020 (Provisional) as against 0.71 percent in FY2019. 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**

VG 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 an impact on margins.

- **Risk of capital withdrawal**

Vivekakand Group is exposed to the risk of capital withdrawal considering its partnership constitution. Any significant withdrawal from the partner's capital will have a negative bearing on the financial risk profile of the group.

Rating Sensitivities

- Improving the existing scale of operations and profitability
- Improving the existing financial risk profile

Material Covenants

None

Liquidity Position: Adequate

The group has an adequate liquidity position marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.10.95-17.21 crore during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs.8.70-10.50 crore over the same period. The working capital cycle of the group is efficient, marked by Gross Current Assets (GCA) days of 41 days in FY2020 (Provisional) and 49 days in FY2019. The average bank limit utilisation stood high at ~28.00 percent for the past eight months ending November 2020. The group maintained unencumbered cash and bank balances of Rs.0.16 crore as on March 31, 2020 (Provisional). The current ratio of group stood moderate at 1.55 times as on March 31, 2020 (Provisional). Acuite believes that the liquidity of the group is likely to remain adequate over the medium term.

Outlook: Stable

Acuite believes that the group will continue to maintain a 'Stable' outlook over the near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the group achieves higher than expected growth in revenues and improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	865.61	953.24
PAT	Rs. Cr.	1.91	6.81
PAT Margin	(%)	0.22	0.71
Total Debt/Tangible Net Worth	Times	1.90	1.69
PBDIT/Interest	Times	1.91	2.23

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-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
03-Oct-2019	Cash Credit	Long Term	6.00	ACUITE BB+/Stable (Reaffirmed)
	Term Loan	Long Term	54.00	ACUITE BB+/Stable (Reaffirmed)

25-Oct-2018	Cash Credit	Long Term	6.00	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	54.00	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	16.00 (Enhanced from Rs.6.00)	ACUITE BB+/Stable (Reaffirmed)
Term Loan	30-Mar-2016	11.05	30-Mar-2023	30.00	ACUITE BB+/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE BB+/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022 49294041 aditya.gupta@acuite.in Vishal Kotian Analyst – Rating Operations Tel: 022 49294064 vishal.kotian@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022 49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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