

Press Release

Vivekanand Cotspin LLP

March 15, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.50	-	ACUITE A4+ Reaffirmed
Bank Loan Ratings	58.50	ACUITE BB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	60.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Rationale for reaffirmation of ratings

The rating continues to drive comfort from the established business risk profile of the company while maintaining stable operating income in FY2021; albeit the impact of covid-19, moderate working capital management, and adequate liquidity position. The rating nonetheless remains constrained on account of moderation in coverage indicators, increase in gearing since FY2019, and uneven profitability margins during the said period.

About Company

Vivekanand Cotspin LLP (VCL) is a Gujarat-based entity established in 2015 and promoted by the Patel family. The entity is engaged in the business of cotton ginning and spinning with an installed capacity of 400 bales per day with average capacity utilization of up to 320 bales per day and an installed capacity of 25000 spindles with average utilization of 98 percent.

About the Group

Vivekanand Group companies have been established since 1983. The group is involved in the manufacturing and marketing of cotton products both in the domestic market and the international market.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has considered the consolidated view of the business and financial risk profiles of Ambica Cotseeds Limited (ACL), Vivekanand Industries (VI), and Vivekanand Cotspin LLP (VCL) to arrive at the rating. The consolidation is in the view of a common line of business, common management, and significant business and financial interlinkages between these entities. The group is herein referred to as Vivekanand Group (VG).

Key Rating Drivers

Strengths

Established track record of operations supported by an experienced management

VG entities were established in 1983 by Mr. Bharat Patel and Mr. Vishnu Patel. Both the partners have more than three decades of experience in the industry and continue to actively participate in the business; Mr. Nirav Patel is currently leading the group since 2008. Further, the operations of the group are based out of Mehsana, Gujarat, which is one of the major cotton producer states in the country.

Acuité believes that VG will continue to benefit from its proximity to its supplier base, promoters experience, and its established presence in the industry while improving the business risk profile in the near to medium term.

Moderate working capital cycle

VG has a moderate working capital cycle on the back of improvement in the inventory holding period albeit stretch in the debtors' collection period, which has, in turn, affected its creditors' payment period during the FY2019-21 period.

The inventory holding period improved to 21 days in FY2021 as against 25 days in FY2020 and 30 days in FY2019, while the debtors' collection period elongated to 45 days in FY2021 as against 29 days in FY2020 and 13 days in FY2019, and the creditors' payment consequently increased to 21 days in FY2021 as against 16 days in FY2020 and 6 days in FY2019. The Gross Current Asset (GCA) days has moderated on a Y-O-Y basis on account of the debtors' collection period, the higher Cash and Bank Balance held of Rs.6.24 Cr. as on March 31, 2021, as against Rs.0.41 Cr. as on March 31, 2020, has also contributed to the higher GCA. Working capital limits of VG Group entities on a consolidated basis are utilized at an average of ~70 percent for the 6-month period ended January 2022.

Acuité believes that VG's ability to contain the further elongation in working capital in the near to medium term will be a key rating factor.

Improvement in operating income albeit the impact of Covid-19

VG's diversified customer profile in both domestic and international markets has helped the group improve its revenue profile marked by operating income of Rs.848.33 Cr. in FY2021 as against Rs.672.67 Cr. in FY2020 albeit the impact of covid-19. In the international market, the group markets its products in countries and regions such as Pakistan, China, Bangladesh, Indonesia, Vietnam, Thailand, Taiwan, Japan, Europe, and the USA to name a few. VG's operating income till February 2022 stood at Rs.861.00 Crore as informed by the management.

Weaknesses

Moderation in the financial risk profile

VG's financial risk profile has witnessed moderation marked by deterioration in gearing and coverage indicators albeit witnessing improvement in its tangible net worth on a Y-O-Y basis.

The tangible net worth of VG strengthened to Rs.50.92 crore as on March 31, 2021, as against Rs.46.24 crore as on March 31, 2020, on the back of accretion to reserves. The Gearing (Debt to Equity) stood at 2.91 times as on March 31, 2021, as against 2.38 times as on March 31, 2020, and 1.69 times as on March 31, 2019; as the group increased its exposure to short-term fund-based working capital limits. The Total Outside Liabilities/Total Net Worth (TOL/TNW) has also increased to 3.88 times as on March 31, 2021, as against 3.12 times as on March 31, 2020, and 2.11 times as on March 31, 2019. VG's coverage indicators have witnessed moderation marked by Interest Coverage Ratio (ICR) of 1.63 times in FY2021 as against 1.91 times in FY2020 and 2.23 times in FY2019, while the Debt Service Coverage Ratio (DSCR) stood at 1.00 times (unity) in FY2021 as against 1.07 times in FY2020 and 1.27 times in FY2019.

Acuité believes that the performance of the gearing and coverage indicators will be a key

rating factor in the near to medium term.

Moderation in profitability indicators

VG's profitability indicators have witnessed deterioration consistently since FY2019 on the back of fluctuating raw material costs during the FY2019-21 period and a significant increase in its selling costs in FY2021. This is reflected in its operating profit (EBITDA) margin of 2.76 percent in FY2021 as against 2.93 percent in FY2020 and 3.66 percent in FY2019, low net profit (PAT) margins of 0.25 times in FY2021 as against 0.18 times in FY2020, and 0.86 percent in FY2019. Acuite believes the profitability of the group will continue to be modest on account of the majority of turnover being received from the trading nature of operations.

High competition, volatility in raw material prices, and risk of capital withdrawal

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

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt coverage indicators or the liquidity position of the entity.

Material Covenants

None

Liquidity Position: Adequate

VG has an adequate liquidity position marked by adequate Net Cash Accruals (NCA) vis-à-vis its maturing debt obligations. VG generated net cash accruals of Rs.8.79 crore in FY2021 while its maturing debt obligations stood at Rs.8.71 crore during the same period. The working capital cycle of the group is efficient while moderating on a Y-O-Y basis, marked by Gross Current Assets (GCA) days of 83 days in FY2021 and 72 days in FY2020. The average bank limit utilization stood at ~70.00 percent for the 6 months ended January 2022 indicating an additional liquidity buffer. VG has maintained unencumbered cash and bank balances of Rs.6.24 crore as on March 31, 2021 while its current ratio stood moderate at 1.25 times as on March 31, 2021.

Acuite believes that the liquidity of the entity is likely to remain adequate over the near to medium term on the back of expected improving business environment.

Outlook: Stable

Acuite believes that VG 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 its financial risk profile. 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	848.33	672.67
PAT	Rs. Cr.	2.12	1.20
PAT Margin	(%)	0.25	0.18
Total Debt/Tangible Net Worth	Times	2.91	2.38
PBDIT/Interest	Times	1.63	1.91

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

Not Applicable

Any Other Information

None

Applicable Criteria

- Application Of 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Dec 2020	Proposed Bank Facility	Long Term	12.50	ACUITE BB+ Stable (Reaffirmed)
	Cash Credit	Long Term	16.00	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	30.00	ACUITE BB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A4+ (Assigned)
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	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+ Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BB+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.76	ACUITE BB+ Stable Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	13-09-2021	9.00	30-10-2028	2.78	ACUITE BB+ Stable Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	13-09-2021	9.00	30-10-2028	8.17	ACUITE BB+ Stable Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	30-03-2016	11.05	31-03-2023	20.79	ACUITE BB+ Stable Reaffirmed

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About Acuité Ratings & Research

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