

Press Release

Victory Spinning Mills Private Limited

October 31, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 80.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE BBB minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 80.00 crore bank facilities of Victory Spinning Mills Private Limited. The outlook is '**Stable**'.

Victory Spinning Mills Limited (VSML) was incorporated as a private limited company in 2003. The company was started by Mr.R.Thangavelu, his son Mr.T.Balachandhar and also by Mr.P.S. Sundaram. Located in the Erode district of Tamilnadu, VSML's spinning units currently have a combined installed capacity of 57792 spindles manufacturing synthetic yarn of counts Ne 8s Viscose White, Ne 16s Viscose White, Ne 20s Viscose White, Ne 24s Viscose White, Ne 30s Viscose White, Ne 40s Viscose White. The company mainly caters to the domestic market.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the VSML to arrive at this rating.

Key Rating Drivers

Strengths

• Established Track record of operations and experienced management

VSML is promoted by Mr.R.Thangavelu, Mr.P.S. Sundaram and Mr.T.Balachandhar with around two decades of experience in the textile industry. The company was incorporated in 2003 and was gradually expanded to the present total capacity of 57792 spindles at its plant in Erode, Tamil Nadu. The unit is located in textile belt of Erode, Coimbatore and Tirupur, the area has numerous garments players providing demand for the product. VSML has a competent management supported by a team of well qualified and experienced second line personnel. The promoter's experience in textile industry has helped the company build healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large offtake. The company procures Viscose Staple Fibre (major raw material) from Grasim Industries Limited). For FY2018, top ten customers of the company contributed ~40 percent of total revenues providing low customer concentration risk. The company's operating income witnessed a CAGR of 16 per cent over the past two years supported by timely enhancement in capacity and demand for the product in the region. VSML has booked revenues of Rs.127.19 crore in 6M of FY2019. The company also has orders to the tune of Rs.40 crore providing revenue visibility over the next two months. Acuite believes that promoter's extensive experience in textile industry would aid the business risk profile of the company over the medium term.

• Moderate financial risk profile

VSML's financial risk profile is marked by moderate debt protection metrics and comfortable capital structure. The gearing has been improving from 1.5 times as on March, 2016 to 1.39 times as on March, 2018 due to repayment of its term loans. Net worth has remained comfortable at Rs.50.87 crore due to better EBITDA margins supporting accretion to reserves. VSML's moderate net cash accruals and debt has led to moderate NCA/TD and interest coverage ratio of 0.17 times and 2.55 times in FY2018 vis-à-vis 0.13 times and 2.32 times in FY2017, respectively. The cash accruals are Rs.11.76 crore in FY2018 and expecting to generate cash accruals of about Rs.16.00 crore over the medium term, against the repayment obligations of about Rs.8.00 crore in FY2019 and FY2020; which leads to expected

improvement in its financial risk profile over the medium term.

Weaknesses

• Moderate working capital operations

VSML has moderate working capital operations as evident from gross current assets (GCA) days of 93 as on March 31, 2018 as against 100 days as on March 31, 2017. The moderate GCA days were mainly due to moderate inventory and low debtor levels. The inventory days are moderate at 47 in FY2018, since the entity maintains inventory levels of 2 months. The entity's debtor days stood at 33 days as on March 31 2018 and provides credit period of 30 days to its customers. Moderate working capital management has led to high utilization of working capital limits over the past six months ended July 2018 to the extent of 98 per cent. Acuite believes that the working capital operations of the firm will remain efficient as evident from efficient collection mechanism and moderate inventory levels in the business.

• Revenue growth limited to capacity constraints

The revenue witnessed CAGR of 16 per cent over the past two years supported by timely enhancement in capacity. However, revenue growth is limited to capacity constraints and current utilization levels stands at 95 per cent, which would provide nominal growth of 3 to 5 per cent over the medium term. The company is not planning for capital expenditure over the next two years till the repayment of current term loans.

Outlook: Stable

Acuite believes that VSML will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining the profitability and improving the liquidity. Conversely, the outlook may be revised to 'Negative' in case of higher-than-expected debt-funded capital expenditure or any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	215.83	175.98	160.01
EBITDA	Rs. Cr.	21.48	17.11	16.04
PAT	Rs. Cr.	2.96	1.46	2.17
EBITDA Margin	(%)	9.95	9.72	10.02
PAT Margin	(%)	1.37	0.83	1.36
ROCE	(%)	10.24	8.39	18.14
Total Debt/Tangible Net Worth	Times	1.39	1.51	1.50
PBDIT/Interest	Times	2.55	2.32	2.56
Total Debt/PBDIT	Times	3.27	4.15	3.78
Gross Current Assets (Days)	Days	103	113	121

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*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	36.00	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	13.42	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.49	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.01	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.85	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	18.66	ACUITE BBB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	4.34	ACUITE BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.23	ACUITE A3

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>Sethu Madhav Analyst - Rating Operations Tel: 022-67141128 sethu.madhav@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

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