

## Press Release

V P N Textiles

December 20, 2019



**Rating Assigned**

<b>Total Bank Facilities Rated*</b>	Rs. 24.27 Cr.
<b>Long Term Rating</b>	ACUITE BB- / Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE BB minus**) on the Rs. 24.27 crore bank facilities of V P N TEXTILES. The outlook is '**Stable**'.

Established in the year 2014, based at Coimbatore, Tamil Nadu; VPN Textiles (VPN) is engaged in manufacturing of cotton yarn. The firm is promoted by Mr. Premanand and Mrs. Sripriya Anand. Mr. Premanand boasts a decade of expertise in textile industry and Mrs. Sripriya Anand has 6 years of experience in textile industry. The manufacturing unit in Tamil Nadu has 35,000 spindles of count 40s-50s.

### Analytical Approach

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

### Key Rating Drivers

#### Strengths

- **Experienced Management**

VPN is promoted by Mr. Premanand, Managing Partner boasts a decade of experience in textile industry and Mrs. Sripriya Anand, offers 6 years of experience and expertise in textile industry. The extensive experience of the promoters and the established presence in the industry has helped the company to generate healthy relations with various customers and suppliers. The same has resulted in improvement in the revenues of the firm, which stood at Rs.54.78 crore for FY2019 as against Rs.37.77 crore for FY 2018. Acuité believes that VPN will continue to benefit from the promoter's established presence in the textile industry and its improving business risk profile over the medium term

#### Weaknesses

- **Moderate Financial Risk Profile**

The firm has moderate financial risk profile marked by moderate net worth, high gearing and moderate debt protection indicators. The net worth of the firm improved to 12.23 crore as on 31 March 2019 from Rs.9.26 crore as on 31 March 2018. The same was on account of infusion of funds by the partners to support the capital expansion done in that year. The gearing (Debt/ Equity) however, deteriorated to 2.08 times as on 31 March 2019 from 1.52 times as on 31 March 2018 as the firm had taken external bank debt for the said capex. The total debt as on 31 March 2019 mainly consists of Term loans of Rs.15.68 crore and working capital borrowings of Rs.9.73 crore. The debt protection matrices stood moderate with interest coverage ratio of 2.53 times and Debt Service Coverage Ratio (DSCR) of 1.59 times for FY2019. The Debt to EBITDA stood high at 3.72 times for FY2019. Acuité believes that with expected improvement in revenues and moderate accruals, the financial risk profile is expected to improve over the medium term in absence of any further debt funded capex plan.

- **Susceptible to changes in input prices**

Operating margins are susceptible to changes in cotton and yarn prices which are highly volatile and commoditized product. Cotton being a seasonal crop, the production of the same is highly dependent upon the monsoon. Thus, inadequate rainfall affects the availability of cotton in adverse weather conditions. Furthermore, any abrupt change in cotton prices due to supply-demand scenario and government regulations of changes in Minimum Support Price (MSP) can lead to distortion of prices and affect the profitability of players across the cotton value chain.

- **Intense competition and highly fragmented industry**

The firm operates in a highly competitive and highly fragmented textile industry and faces competition from established brands as well as unorganized players. This impacts the bargaining power of the firm and margins, thereof.

#### **Liquidity position: Stretched**

Liquidity profile of the firm is stretched marked by weak current ratio of 0.83 times for as on 31 March 2019. VPN Textiles generated cash accruals of Rs.4.07 crore for FY2019 with a current portion of long term debt of Rs. 2.99 crore for FY2019 and GCA days of 78 for FY2019. The reliance on working capital borrowings remained high with average utilization of working capital limits at 80 percent for last six months ending November 2019.

#### **Rating Sensitivities**

- Significant improvement in revenues while maintaining the profitability
- Further stretch in liquidity

#### **Material Covenants**

- None

#### **Outlook: Stable**

Acuité believes that VPN will maintain 'Stable' outlook over the medium term from its partner's industry experience. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while maintaining its profitability and capital structure and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital cycle or sharp decline in its profitability leading to deterioration in the firm's financial risk profile and liquidity.

#### **About the Rated Entity - Key Financials**

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	54.78	37.77
PAT	Rs. Cr.	0.48	0.28
PAT Margin	(%)	0.87	0.75
Total Debt/Tangible Net Worth	Times	2.08	1.52
PBDIT/Interest	Times	2.53	2.62

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

None

#### **Any other information**

None

#### **Applicable Criteria**

Default Recognition - <https://www.acuite.in/view-rating-criteria-59.htm>

Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-52.htm>

Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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	10.00	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	14.27	ACUITE BB- / Stable

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**About Acuité Ratings & Research:**

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