

Press Release

V P N Textiles

March 09, 2021



Rating Upgraded & Assigned

Total Bank Facilities Rated*	Rs.35.51 crore (Enhanced from Rs.24.27 Cr.)
Long Term Rating	ACUITE BB/ Outlook: Stable (Upgraded from ACUITE BB- Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB**' (read as **ACUITE Double B**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.29.51 crore bank facilities of VPN Textiles. The outlook is '**Stable**'.

Also, Acuité has assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE Double B**) on the Rs.6.00 crore bank facilities of VPN Textiles. The outlook is '**Stable**'.

Reason for rating upgrade

The rating upgrade is in view of higher than expected growth in revenues and improvement in profitability margins during FY2020 and FY2021, which is expected to be sustained over near to medium term. The scale of operations are expected to grow significantly in FY2022 due to capex incurred by the firm during FY2021. Acuité expects that VPNT will be able to exhibit improved operating metrics.

About the Firm

Established in the year 2014, based at Coimbatore, Tamilnadu; VPN Textiles (VPN) is engaged in manufacturing of cotton yarn. The firm is promoted by Mr. Prem Anand and Mrs. Sripriya Anand. Mr. Prem Anand boasts a decade of expertise in textile industry and Mrs. Sripriya Anand has 7 years of experience in textile industry. The manufacturing unit in Tamil Nadu has 43,400 spindles of count 40s-50s.

Analytical Approach

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

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

VPN is promoted by Mr. Prem Anand, Managing Partner boasts a decade of experience in textile industry and Mrs. Sripriya Anand, offers 7 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.

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.

- Efficient working capital management**

The company's working capital management is efficient marked by its gross current asset (GCA) of around 71 days in FY2020 as against 78 days in FY2019. The firm has maintained an inventory holding period of 53 days as on 31 March, 2020 as against 55 days as on 31 March, 2019. The debtor days remained around 12 in FY2020 as against 15 days in FY2019.

Acuité expects the working capital management of the company to remain efficient over the medium term on account of its efficient debtor collection period.

Weaknesses

• Average financial risk profile

The firm has average financial risk profile marked by modest net worth, moderate gearing and average debt protection metrics. The net worth stood at Rs.16.13 crore as on 31 March, 2020 as against Rs.12.23 crore on 31 March, 2019 due to healthy accretion to reserves and infusion of capital by the promoters.

The firm has followed a moderately aggressive financial policy in the past; the same is reflected through its gearing levels of 2.08 times as on March 31, 2019. The gearing improved to 1.42 times as on March 31, 2020. Total outside liabilities to tangible net worth (TOL/TNW) stood at 1.52 times as on 31 March 2020 as against 2.18 times as on 31 March 2019. The firm on the other hand generated cash accruals of Rs.6.00 crore in FY2020 as against Rs.4.13 crore in FY2019. The NCA/TD and interest coverage ratio for FY2020 were moderate at 0.26 times and 3.24 times, respectively.

Acuite believes that the financial risk profile of the firm is likely to remain average over the medium term, on account of moderate gearing and average debt protection metrics.

• Susceptible to changes in input prices

The 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.

Rating Sensitivity

- Substantial improvement in the scale of operation, while maintaining the profitability margin
- Any stretch in the working capital cycle will lead to increase reliance on working capital borrowings

Material Covenants

None

Liquidity Position: Adequate

VPN has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.6.00 crore for FY2020, with debt repayment obligations of Rs.2.99 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.8.10 ~ 8.39 crore during FY2021-22 against debt repayment obligations of Rs.2.80~ 6.10 crore in the same period. The company's working capital operations are efficient, marked by GCA of 71 days for FY2020. The average bank limit utilization over the past six months ended --- 2020 remained at around 77.82 percent. The current ratio stood at 1.02 times as on 31 March, 2020.

Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash accruals against its debt repayments over the medium term.

Outlook: Stable

Acuite believes that VPN will maintain a 'Stable' outlook on account of experienced management. The outlook may be revised to 'Positive' in case of significant improvement in revenues while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in scale of operations or profitability or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	73.35	54.78
PAT	Rs. Cr.	2.23	0.54
PAT Margin	(%)	3.04	0.98
Total Debt/Tangible Net Worth	Times	1.42	2.08
PBDIT/Interest	Times	3.24	2.55

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>
- 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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
20-Dec-2019	Cash Credit	Long Term	10.00	ACUITE BB-/Stable (Assigned)
	Term Loan	Long Term	14.27	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	10.00	ACUITE BB/Stable (Upgraded from BB-/Stable)
Term Loan	Not Available	Not Available	Not Available	14.27	ACUITE BB/Stable (Upgraded from BB-/Stable)
Term Loan	18-May-20	Not Applicable	18-Nov-27	6.00	ACUITE BB/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.24	ACUITE BB/Stable (Upgraded)

Contacts

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About Acuité Ratings & Research:

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