

Press Release

V P N Textiles

June 03, 2022



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	35.51	ACUITE BB+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	35.51	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BB+**' (read as **ACUI TE Double B plus**) from 'ACUITE BB' (read as ACUITE double B) on the Rs.35.51 Cr bank facilities of VPN Textiles (VPN). The outlook is '**Stable**'.

The rating upgrade is in view of higher-than-expected growth in total operating income and improvement in profitability margins for FY22, improved financial risk profile and efficient working capital management. The total operating income is expected to show similar traction as the firm is expanding its production capacity.

The rating continues to derive strength from its experienced management, efficient working capital management and above-average financial risk profile. The rating, however, is constrained by its susceptibility to fluctuations of raw material prices.

About the Company

Established in the year 2014, based at Coimbatore, Tamilnadu; VPN Textiles 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 current manufacturing capacity is around 50,544 spindles. The main raw material is cotton bales, and the firm procures 75% of its raw material from Bhiwandi, Maharashtra and the remaining from Raichur, Karnataka. Few of the suppliers are VPN Textiles being SGM Ginning and Pressing Industry, Chimur Cotton Industry, N S Trading and Shri Balaji Fibers

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and improving operational performance

VPN is promoted by Mr. Prem Anand, 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. There is a significant increase in the total operating income of V P N textiles for FY22 (provisional). As the firm managed to generate Rs.141.21 Cr (Provisional) of revenue in FY22 which is double of the revenue of Rs .9.13 Cr in FY21. This growth in revenue is primarily due to increase in capacity to 50,544 spindles from 34,944 spindles in FY21 and installation of compact yarn spinning machines that can produce premium quality of yarn and increases the overall productivity along with yielding of better margins. At current capacity, VPN textiles can produce maximum of 15,000 Kgs of yarn per day. There is a significant rise in the yarn rates to Rs ~400 per Kg in FY22. EBITDA stood at 11.42 percent and PAT margin improved to 4.14 percent in FY22 (Provisional) from 1.54 percent in FY21. Acuite believes that VPN will continue to benefit from the partner's established presence in the textile industry and its improving business risk profile over the medium term

Efficient working capital management

Working capital management of the company is efficient marked by its Gross current asset (GCA) of 72 days as on March 31, 2022 on provisional basis improved from 86 days on March 31, 2021. Debtor days stood at 16 days as on March 31, 2022 against 34 days on March 31, 2021. The firm is maintaining very low debtor days and creditor days. VPN usually receives payment within 10-15 days from their customers. Acuite believes that working capital management of VPN will remain efficient over the medium term.

Above-average financial risk profile

Financial risk profile of VPN is above-average and has improved. Firm has moderate net worth, gearing and debt protection metrics. Net worth of the firm stood at Rs.26.01 Cr as on March 31, 2022 as against Rs.17.80 Cr on March 31, 2021. Gearing levels (adjusted Debt to equity) stood comfortable at 1.63 times as on March 31, 2022 as against 1.80 times on March 31, 2021. Interest coverage ratio improved to 5.09 times as on March 31, 2022 from 3.44 times on March 31, 2021. Debt service coverage ratio(DSCR) stood at 1.83 times as on March 31, 2022. Total outside liabilities to total net worth (TOL/TNW) stood at 1.77 times as on March 31, 2022 against 1.95 times as on March 31, 2021. Acuite believes that financial risk position of VPN will remain stable and healthy over the medium term.

Weaknesses

Susceptible to changes in raw material 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. VPN is engaged in manufacture of fine counts, which provides some protection from raw material price fluctuations. Acuite believes that VPN will be able to maintain its profitability around similar margins regardless the volatility in raw material prices.

Rating Sensitivities

- 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: Adequate

VPNT has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.12.95Cr for FY22 (Provisional), with debt repayment obligations of Rs.5.18Cr for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.15 Cr – Rs.20Cr over the medium term. The firm's working capital operations are efficient, marked by GCA of 72 days for FY22 (provisional). Unencumbered cash and bank balances stood at Rs.0.05 crore as on March 31, 2022. The current ratio of the firm stood at 1.45 times in FY22. Bank limits utilization of VPN is moderate stood around ~81.5 percent over the past 12 months ending March 2022. Acuité believes that the liquidity position 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

Acuité believes that VPN will continue to benefit over the medium term due to its experienced management and established relation with its suppliers and customers. The outlook may be revised to 'Positive', in case of continued traction in total operating income and sustainable profitability given the limited capacity available with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case VPNT registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	141.21	79.13
PAT	Rs. Cr.	5.85	1.22
PAT Margin	(%)	4.14	1.54
Total Debt/Tangible Net Worth	Times	1.63	1.80
PBDIT/Interest	Times	5.09	3.44

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>
- Application Of 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**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Mar 2021	Term Loan	Long Term	14.27	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Proposed Bank Facility	Long Term	5.24	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Term Loan	Long Term	6.00	ACUITE BB Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+ Stable Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.24	ACUITE BB+ Stable Upgraded
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	14.27	ACUITE BB+ Stable Upgraded
Canara Bank	Not Applicable	Term Loan	Not available	Not available	18-11-2027	6.00	ACUITE BB+ Stable Upgraded

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About Acuité Ratings & Research

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