



## Press Release

### V P N Textiles

July 07, 2022

### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BB+   Stable   Assigned	-
Bank Loan Ratings	35.51	ACUITE BB+   Stable   Reaffirmed	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	45.51	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

### Rating Rationale

Acuite has been reaffirmed the long-term rating to '**ACUITE BB+**' (read as **ACUITE Double B plus**) on the Rs.35.51 Cr bank facilities of VPN Textiles. The rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) has been assigned on additional Rs.10.00 Cr bank facilities of VPN Textiles. The outlook is '**Stable**'

The rating is in view of higher than expected growth in revenues and improvement in profitability margins for FY22, improved financial risk profile and efficient working capital management. The revenues are expected to grow in FY23 as the firm is expanding its production capacity. Acuite believes that VPNT will continue to generate healthy revenue over medium term.

### 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 operations

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. There is a significant increase in the revenue of V P N textiles for FY22. As the firm managed to generate Rs.141.21 Cr of revenue in FY22 which is double of the revenue of Rs 79.13 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 . 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 in FY22. EBITDA stood at 11.42 percent. PAT margin improved to 4.14 percent in FY22 from 1.54 percent in FY21. Acuite 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

Working capital management of the company is efficient marked by its GCA of 72 days as on March 31, 2022 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. As per the information from the client they are not allowing any credit terms to the customers and usually within 10-15 days they receive the payments from the customers. Acuite believes that working capital management of VPNT will remain efficient and stable over the medium term.

#### Improved financial risk profile

Financial risk profile of VPNT is above average and 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 17.80Cr 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 textiles will remain stable and healthy over the medium term.

### Weaknesses

#### Susceptible to changes in raw material

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. VPNT is engaged in manufacture of fine counts, which provides some protection from raw material price fluctuations. Acuite believes that VPNT will be able to maintain its profitability around similar margins regardless the volatility in rawmaterial 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, with debt repayment obligations of Rs.5.18Cr for the same period. The cash accruals of the company 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(Provisionals). Unencumbered cash and bank balances stood at Rs.0.05 crore as on March 31, 2022(Provisionals). The current ratio of the firm stood at 1.45 times in FY22. Bank limits utilization of VPNT is moderate stood around ~81.5 percent. 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 VPNT 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 revenues and sustainable profitability given the limited capacity available with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case PPTPL 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)

None

## Any other information

None

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

- Entities In Manufacturing Sector -<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
03 Jun 2022	Term Loan	Long Term	6.00	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	14.27	ACUITE BB+   Stable (Upgraded from ACUITE BB   Stable)
	Cash Credit	Long Term	10.00	ACUITE BB+   Stable (Upgraded from ACUITE BB   Stable)
09 Mar 2021	Cash Credit	Long Term	10.00	ACUITE BB   Stable (Upgraded from ACUITE BB-   Stable)
	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)
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   Reaffirmed
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+   Stable   Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.24	ACUITE BB+   Stable   Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	18-11-2027	6.00	ACUITE BB+   Stable   Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	14.27	ACUITE BB+   Stable   Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	5.00	ACUITE BB+   Stable   Assigned

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## About Acuité Ratings & Research

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