



Press Release
V P N TEXTILES
October 04, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	45.51	ACUITE BB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	45.51	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating to '**ACUITE BB+**' (read as **ACUITE Double B plus**) on the Rs.45.51 Cr bank facilities of VPN Textiles. The outlook is '**Stable**'

Rating Rationale

The rating factors the improvement in the performance of the firm in FY2023 (prov). The firm recorded operating income of Rs.171.23 crore in FY2023 (prov) and increase in the operating margin to 13.07 percent in FY2023 (prov) from 11.85 percent in FY2022 inspite of the fluctuation in cotton prices. The improvement in the operating margin is mainly due installation of solar panels aiding to reduction in the power costs. The rating also draws comfort from the experienced management, efficient working capital management and adequate liquidity. The rating however, remains constrained on account below average financial risk profile, susceptibility to changes in raw material prices and risks of withdrawal of capital by partners.

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 firm manufactures 46's counts of count yarn. 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 business risk profile

VPN textiles is promoted by Mr. Prem Anand, managing partner who has a decade of experience in textile industry and Mrs. Sripriya Anand, has seven years of experience and expertise in textile industry. The extensive experience, coupled with a long track record of operations, has enabled the firm to forge healthy relationships with customers and suppliers. The experienced management have supported in improving the business risk profile of the

firm. The firm reported revenue of Rs.171.23 Cr in FY2023 (prov) which is twenty-one percent higher than FY2022. This growth in revenue is primarily due to better production capacity utilisation. Firm achieved capacity utilisation of 88.20% in FY2023 (prov) as compared to 77.94%

in FY2022. The operating margin of the firm stood at 13.07 percent in FY2023 (prov) as compared to 11.85 percent in FY2022. The reason for increase in the operating margins in FY2023 (prov) in spite of the fluctuation in cotton prices is due to installation of solar panels aiding to reduction in the power costs. However, the PAT margin of the firm declined and stood at (0.76) percent in FY2023 (prov) as compared to 4.19 percent in FY2022. The decline in the PAT margin because of the higher depreciation cost in FY2023. Acuite believes that VPN textiles 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 firm is efficient marked by its GCA of 73 days as on March 31, 2023 (prov) improved from 77 days on March 31, 2022. Debtor days stood at 8 days as on March 31, 2023 (prov) against 16 days on March 31, 2022. The firm is maintaining very low debtor days and creditor days. The inventory levels are moderate and stood at 46 days as on March 31, 2023 (prov) against 35 days in March 31, 2022. Acuite believes that working capital management of VPN textiles will remain efficient and stable over the medium term.

Weaknesses

Below Average financial risk profile

Financial risk profile of VPN textiles is below average mainly marked by moderately high gearing (debt to equity ratio) and modest debt protection metrics. The gearing stood at 3.10 times as on March 31, 2023 (prov) against 1.70 times as on March 31, 2022. The deteriorated gearing ratio is majorly due to the additional term loan availed and withdrawal of capital by the partners. The net worth of the firm stood at Rs.21.08 Cr as on March 31, 2023 (prov) as against Rs.25.07 Cr as on March 31, 2022. The firm incurred the loss of Rs.1.31 Cr in FY2023 (prov). The reduction of capital in FY2023 is Rs.3.99 Cr., which includes net loss, net drawings of Rs.2.69 Cr. Of the total debt of Rs.65.38 crore as on March 31, 2023 (prov), long-term debt stood at Rs.39.48 crore, short-term debt stood at Rs.19.13 crore and CPLTD stood at Rs.6.70 crore. The firm's debt has significantly increased from Rs.42.50 Cr as on March 31, 2022 and Rs.32.08 Cr as on March 31, 2021. The increase is primarily on account of additional debt availed to fund the capex incurred towards solar power capacity and increase in working capital utilisation. Of the total capex cost of Rs.35.00 crore, VPN textiles have availed Rs.25.00 Cr of term loan and balance was funded vide internal accruals. The Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) stood at 3.55 times and 1.97 times respectively in FY2023 (prov) as against 4.44 and 1.78 times respectively in the previous year. TOL/TNW stood at 3.42 times as on March 31, 2023 (prov) and NCA/TD (Net cash accruals to total debt) stands moderate at 0.25 times in FY2023 (prov).

Acuite believes the firm ability to improve its financial risk profile over the medium term will remain a key rating monitorable.

Risks associated with partnership constitution

Entity, being a partnership firm, is exposed to adverse capital structure risk, where any substantial capital withdrawal could negatively impact its net worth and capital structure and the liquidity position. The partners withdraw Rs.2.69 Cr in FY2023 (prov).

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 Textiles is engaged in manufacture of fine counts, which provides some protection from raw material price fluctuations. Acuite believes that VPN Textiles 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 substantial capital withdrawal impacting its capital structure and the liquidity position.

All Covenants

Not applicable

Liquidity Position: Adequate

VPN Textiles has adequate liquidity as reflected by sufficient net cash accruals to its maturing debt obligations. The firm generated net cash accruals of Rs.16.48 crore in FY2023 (prov), while its maturing debt obligations stood of Rs.5.18 crore during the same period. The cash accruals of the VPN textiles are estimated to remain around Rs.19.10 – 21.57 crore during 2024-26, while its repayment obligations are estimated to be around Rs.7.12 - 6.98 crore over the same period. The current ratio stood average, 1.06 times ended with March 31, 2023 (prov). Unencumbered cash and bank balances stood at Rs.0.04 crore as on March 31, 2023 (prov) and liquid investments stood at Rs.0.83 crore as on March 31, 2023 (prov). The Bank limit utilisation remains highly utilized at 98.96 percent for last 6 months ended August, 2023. 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 obligation over the medium term.

Outlook: Stable

Acuité believes that VPN Textiles 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' if the maintains growth in its revenues at current levels while maintaining its margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than expected revenues and profitability or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	171.23	141.24
PAT	Rs. Cr.	(1.31)	5.92
PAT Margin	(%)	(0.76)	4.19
Total Debt/Tangible Net Worth	Times	3.10	1.70
PBDIT/Interest	Times	3.55	4.44

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>
- 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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jul 2022	Term Loan	Long Term	5.00	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	6.00	ACUITE BB+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	5.24	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	14.27	ACUITE BB+ Stable (Reaffirmed)
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	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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	19.00	ACUITE BB+ Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	11.34	ACUITE BB+ Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.11	ACUITE BB+ Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	7.06	ACUITE BB+ Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.00	ACUITE BB+ Stable Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Thejaswini P V Senior Analyst-Rating Operations Tel: 022-49294065 thejaswini.pv@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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