



Press Release
V P N Textiles
December 31, 2024
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	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Rationale for reaffirmation

The rating reaffirmation factors in the steady business position of the firm as reflected from its consistent operating margins over the year. The operating margin of the firm marginally improved to 13.29% in FY2024 from 12.87% in FY2023 and 11.85% in FY2022. However, the operating revenue of the firm declined to Rs. 146.31 Cr. in FY2024 from Rs. 171.16 Cr. in FY2023. The rating also draws comfort from the experienced management, moderate financial risk profile and adequate liquidity position. The rating, however, remains constrained on account of moderate nature of working capital operations, 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, Tamil Nadu; V P N Textiles is engaged in manufacturing of cotton yarn. The firm is promoted by Mr. Premanand and Mrs. Sripriya Anand. Mr. Premanand boasts over a decade of expertise in textile industry and Mrs. Sripriya Anand has over 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 majorly procures its raw material from Bhiwandi, Maharashtra and the remaining from Raichur, Karnataka.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management

V P N textiles is promoted by Mr. Prem Anand, managing partner who has over a decade of experience in textile industry and Mrs. Sripriya Anand, has over 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.

Acuite believes that the experience of the management in the industry is likely to benefit the firm over the medium

term.

Improvement in profitability;albeit decline in operating revenue

The operating margin of the firm improved marginally and stood at 13.29 % in FY2024 as compared to 12.87 % in FY2023 and 11.85 % in FY2022. This improvement in operating margin, despite fluctuations in cotton prices, is

primarily due to the installation of solar panels, aiding to reduction in power costs. Further, the PAT margin of the V P N Textiles improved and stood at 0.10 % as compared to (0.70) % in FY2023 primarily due to reduction in depreciation cost. However, the revenue of the firm declined to Rs. 146.31 Cr, compared to Rs. 171.16 Cr. in FY2023. This reduction is primarily attributed to a decrease in cotton yarn prices, driven by a supply-demand imbalance. In 8MFY2025, the firm reported revenues of approximately Rs. 99.40 Cr, compared to Rs. 94.08 Cr. in 8MFY2024.

Going ahead, the ability of the firm to improve its scale of operations while maintaining profitability will remain a key monitorable.

Weaknesses

Moderate financial risk profile

The financial risk profile of the firm is moderate marked by moderate network, gearing and debt protection metrics. The tangible net worth of the firm increased to Rs. 24.77 Cr. as on March 31st, 2024, as against Rs. 20.69 Cr. as on March 31st 2023 due to infusion of capital by the partners in the firm. The total debt of the firm stood at Rs. 72.40 Cr. as on March 31, 2024, as against Rs. 65.38 Cr. as on March 31, 2023. The gearing of the firm declined to 2.92 times as on March 31, 2024 from 3.16 times as on March 31, 2023. Further, it is expected to improve over the medium term as the firm does not plan to incur any additional long-term loans. The TOL/TNW of the firm stood at 3.29 times as on March 31, 2024, as against 3.46 times as on March 31, 2023. The debt protection metrics of the firm stood moderated reflected by debt service coverage ratio of 1.17 times for FY2024 as against 1.87 times for FY2023. The interest coverage ratio stood at 2.85 times for FY2024 as against 3.90 times for FY2023. The net cash accruals to total debt (NCA/TD) stood at 0.18 times in FY2024 as compared to 0.26 times in the previous year.

Going ahead, the financial risk profile is expected to improve on account of steady accruals generation and in absence any further major debt funded capex over the medium term.

Moderate working capital operations

The GCA days of the firm increased to 118 days in FY2024, against 71 days in FY2023. The inventory days increased to 90 days in FY 2024 as against 46 days in FY 2023. The debtor's days stood at 6 days in FY 2024, as against 5 days in FY 2023. The creditor's days stood at 25 days as on in FY 2024, as against 12 days in FY 2023. The fund-based limits utilisation remained high at ~98.96 percent for last eight months ended November 2024.

Acuite believes that the ability of the firm to improve its scale of operations without any significant elongations in the working capital cycle will be a key monitorable.

Risk 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. However, during FY2024, partners made a net infusion of funds to the capital of the firm.

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 V P N 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.

Liquidity Position

Adequate

V P N textiles liquidity position is adequate as reflected by sufficient net cash accruals to its maturing debt obligations. The firm generated net cash accruals of Rs.12.90 Cr. in FY2024 while its maturing debt obligations stood of Rs. 10.04 Cr. during the same period. The cash accruals of the V P N textiles are estimated to remain sufficient against its repayment obligations over the medium term. The current ratio stood at 1.08 times ended with March 31, 2024. The unencumbered cash and bank balances stood negligible at Rs. 0.01 Cr. as on March 31, 2024. However, the reliance on fund-based working capital limits stood high at ~98.96 percent for the last eight months ended November 2024.

Acuite believes that going forward the firm will maintain adequate liquidity position owing to steady accruals.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	146.31	171.16
PAT	Rs. Cr.	0.15	(1.20)
PAT Margin	(%)	0.10	(0.70)
Total Debt/Tangible Net Worth	Times	2.92	3.16
PBDIT/Interest	Times	2.85	3.90

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
04 Oct 2023	Term Loan	Long Term	4.00	ACUITE BB+ Stable (Reaffirmed)
	Cash Credit	Long Term	19.00	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	11.34	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	4.11	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	7.06	ACUITE BB+ Stable (Reaffirmed)
07 Jul 2022	Cash Credit	Long Term	10.00	ACUITE BB+ Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	14.27	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	6.00	ACUITE BB+ Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	5.24	ACUITE BB+ Stable (Reaffirmed)
03 Jun 2022	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)
	Term Loan	Long Term	6.00	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Proposed Long Term Bank Facility	Long Term	5.24	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)
	Proposed Long Term 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)
	Term Loan	Long Term	6.00	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Canara Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	25.00	Simple	ACUITE BB+ Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	3.16	Simple	ACUITE BB+ Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	27 Nov 2027	2.57	Simple	ACUITE BB+ Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	13 Oct 2030	8.22	Simple	ACUITE BB+ Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	15 Dec 2028	2.92	Simple	ACUITE BB+ Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	27 Jun 2029	3.64	Simple	ACUITE BB+ Stable Reaffirmed

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