

Press Release

VST Weaves India Private Limited

January 28, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.9.62 Cr
Long Term Rating	ACUITE BB/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs.9.62 Cr bank facilities of VST Weaves India Private Limited (VWPL). The outlook is '**Stable**'.

About the company

Tamil Nadu-based, VST Weaves India Private Limited (VWPL) was incorporated in the year 2010 by Mr. Thottipalayam Thangavell Rajavelu along with his family members. The promoter has more than 3 decades of experience in textile business. The company has 4 revenue divisions. VWPL engaged in manufacturing of viscose fabric, exporting of kerchiefs via merchant exports, trading in polyester stable fibre and windmill income.

The rating assigned on the bank facilities of VWPL factors in its established track record of operations, experienced management and efficient working capital management. These rating strengths are partially offset by its moderate financial risk profile, modest profitability margins and high supplier concentration risk.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of VWPL to arrive at the rating

Key Rating Drivers

Strengths

- **Experienced management and diversified revenue profile**

VWPL is promoted by Mr. Thottipalayam Thangavell Rajavelu along with his family members. Mr. Thottipalayam Thangavell Rajavelu is the Managing Director, who has more than 3 decades of experience in the textile industry. The promoters' extensive experience and long track record has helped the company in building established relation with its customers and suppliers over the years. The company has 4 revenue divisions – manufacturing of viscose fabric - The company has 100 handlooms and engaged in manufacturing of fabric which is sold domestically mainly in and around erode region. 8-10 percent of the revenues generate from this division; Merchant Exports - This division engaged in exporting of handkerchiefs. The company gets orders from merchant exporters and the same is given for job works and sold to merchant exporters (5-10 percent of the revenues generate from this division); Trading in Polyester Fibre - This is the main revenue division the company. Out of the total sales, 80-85 percent of the revenue is derived from this division. This division engaged in trading into Polyester Stable Fiber (PSF). The company procures PSF from Bombay Dyeing and the same is sold to the spinning mills in and around Tamil Nadu region. Wind mill income - The Company has 4 windmills with capacity of 1450 KW, around 5 percent of the total revenue is generated from this division. Acuité believes that VWPL will continue to benefit from its experienced management and revenue diversification over the medium term.

- **Efficient working capital management**

The working capital of the company is managed efficiently, evident from its Gross Current Assets (GCA) of 42 days as on March 31, 2020 as against 40 days as on March 31, 2019 on account of prudent debtor days. The debtor days stood at 32 days as on March 31, 2020 as against 30 days as on March 31, 2019. Inventory days stood at 3 days as on March 31, 2020 and 2019. Creditor days

stood at 22 days as on March 31, 2020 and 2019. Working capital limits are utilized at 90 percent for 12 months ending December 2020. Acuité believes that VWPL's working capital cycle will remain efficient over the medium term.

Weaknesses

- **Moderate financial risk profile**

The financial risk profile of the company remained moderate with modest capital structure and moderate debt protection metrics. The networth of the company stood modest at Rs.6.77 Cr as on March 31, 2020 as against Rs.5.74 Cr as on March 31, 2019. Gearing stood moderate at 1.18 times as on March 31, 2020 as against 1.08 times as on March 31, 2019. Gearing marginally increased on account of increase in debt levels. Interest coverage ratio and Debt service coverage ratio stood at 3.58 times and 1.64 times in FY2020 as against 4.29 times and 2.52 times in FY2019, respectively. The debt protection metrics deteriorated in FY2020 on account of decrease in EBITDA in absolute terms and increase in total debt levels. TOL/TNW stood at 2.98 times as on March 31, 2020 as against 3.53 times as on March 31, 2019. Acuité believes that the financial profile of the VWPL is expected to be at similar levels over the medium term owing to moderate accretion to reserves and absence of any significant debt-funded capex plans.

- **Fluctuating revenues and modest profitability margins**

The revenues of the company have been fluctuating over the last 3 years. The revenues stood at Rs.196.53 Cr in FY2018, Rs.211.22 Cr in FY2019 and Rs.177.34 Cr in FY2020. The decline in revenues in FY2020 is on account of decline in polyester staple fibre prices and decline in merchant export orders. As 80-85 percent of the revenues are generated from the trading of PSF, the decline in PSF prices has led to decline in revenues and 5-10 percent of revenues from merchant exports, the decline in orders has also led to decline in top line. Further, the company has generated revenue of Rs.87.47 Cr for 9M of FY2021. The profitability margins of the company have remained modest on account of company being present majorly in trading activity. The EBITDA margins of the company stood at 1.48 percent in FY2020 as against 1.49 percent in FY2019. Acuité believes that revenues expected to decline in near term owing to Covid-19 impact and profitability margins expected to remain modest owing to trading activity.

- **High supplier concentration risk**

The company sources the entire part of polyester staple fiber from Bombay Dyeing Mfg & Co. Ltd. As around 80-85 percent of the revenues is from trading of PSF division and VWPL solely depending on Bombay Dyeing Mfg & Co. Ltd, where VWPL is exposed to supplier concentration risk.

Rating Sensitivities

- Lower-than-expected revenue and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity

Liquidity Position: Adequate

The liquidity position of the company remained adequate with adequate net cash accruals to service its debt obligations. The NCA's stood moderate and remained in the range of Rs.0.69-1.61 Cr through FY2018-2020 against the repayment obligation of Rs.0.39-0.87 Cr. The NCA's are expected to be in the range of Rs.1.30-2.00 Cr through FY21-23 against the repayment obligation of Rs.0.95-1.15 Cr. The current ratio stood at 1.29 times as on March 31, 2020. The cash and bank balance stood at Rs.0.06 Cr as on March 31, 2020. The working capital limits are almost 90 percent utilized for the last 12 months ended December 2020. Acuité believes that the liquidity profile continues to be adequate supported by accruals.

Outlook: Stable

Acuité believes that VWPL will continue to benefit over the medium term due to its experienced management and established relationships with its suppliers and customers. The outlook may be revised to 'Positive', in case of higher-than-expected revenues and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case VWPL registers lower-than-expected decline in revenues and profitability or any significant stretch in its working capital management or deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	177.34	211.22
PAT	Rs. Cr.	1.03	1.70
PAT Margin	(%)	0.58	0.80
Total Debt/Tangible Net Worth	Times	1.18	1.08
PBDIT/Interest	Times	3.58	4.29

Status of non-cooperation with previous CRA (if applicable)

None

Any Material Covenants:

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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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)

Not Applicable

*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	3.25	ACUITE BB/ Stable (Assigned)
Term Loan	Dec 2017	11.75	June 2024	1.47	ACUITE BB/ Stable (Assigned)
Term Loan	Mar 2020	11.25	Nov 2025	2.86	ACUITE BB/ Stable (Assigned)
Term Loan	Sept 2020	8.20	Nov 2024	0.98	ACUITE BB/ Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	1.06	ACUITE BB/ Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Nagidi Bhavani Analyst - Rating Operations Tel: 040-40042327 nagidi.bhavani@acuite.in	

About Acuité Ratings & Research:

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