

Press Release

V P Tex Private Limited

August 06, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.53.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 53.00 Cr bank facilities of V.P. Tex Private Limited (VPTPL). The outlook is '**Stable**'.

Incorporated in 2011, V.P. Tex Private Limited (VPTPL) is an Erode (Tamil Nadu) based company VPTPL is a closely held private limited company, promoted by Mr. Velappan Srinivasan, Mr. Vasudevan Velappan, Mr. Velappan Sengodan, Mr. Manoj Kumar Srinivasan. VPTPL manufactures varieties of fabrics in Viscose / Micro Modal / Flax / Cotton Linen / Cotton Flax/ Rayon Linen/Viscose / Modal/Cotton Viscose/Cotton Modal/ Rayon Creap/Linen in its manufacturing facility located at Pallipalayam at Erode (Tamil Nadu). It has 130 airjet looms and 360 power looms for weaving to produce 30 lakh meters of cloth) per month.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of VPTPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experience of promoters and improved profitability**

VPTPL's promoters' have an established presence in the textile industry for nearly two decades with a competent management supported by a team of qualified and experienced second line personals. This has helped VPTPL in building healthy relationship with its suppliers and customers to ensure a steady raw material supply and repeat business. The company's revenue has remained moderate at about Rs.130 Cr to Rs. 140 Cr over the past three years through FY2021. However, it had shown y-o-y improvement in the operating profitability over last few years, driven by reduction of job work charges. This resulted from higher contribution from its own production. The operating profit improved to 13.52 percent in F2021 (Provisional) from 9.02 percent in FY2020 and 6.43 percent in FY2019. VPTPL's net profit margins also improved to 2.63 percent in FY2021 (Provisional) from 1.80 percent in FY2020 and 1.43 percent in FY2019. VPTPL's revenue is expected to improve over the medium term driven by enhanced capacity from 80 airjet looms to 130 airjet looms in FY2021. Acuité believes that VPTPL is expected to benefit from its experienced management, established relations with its stakeholders and local presence.

- **Moderate financial risk profile**

VPTPL's financial risk profile is moderate, marked by moderate capital structure and debt protection metrics. Its net worth is moderate at around Rs. 29.24 Cr as on March 31, 2021 as compared to Rs. 16.62 Cr as on March 31, 2020; improved owing to higher accretion to reserves. VPTPL's capital structure is moderate, marked by moderate gearing and total outside liabilities to total net worth (TOL/TNW) of 1.57 times and 3.46 times as on March 31, 2021 as against 1.80 times and 5.03 times as on March 31, 2020. The comfortable profitability coupled with moderate gearing levels has resulted in comfortable debt protection metrics with interest coverage of 5.73 times and NCA/TD of 0.31 times for FY2020 as against 4.51 times and 0.30 times, respectively, for FY2020. During FY2021, the

processing capacity was enhanced from 80 Air-Jet looms to 130 Air-Jet looms with an investment of about Rs.30 Cr; funded by term loans of Rs.20 Cr and rest through internal accruals. The current capex supports about 10-15 percent of revenue growth over the medium term. It reported cash accruals of Rs.14.43 Cr in FY2021, its accruals are expected in the range of Rs10.00-13.50 Cr in FY2022-24 against its repayment obligations of Rs.6-8 Cr during the same period. Acuité believes that the company will maintain its financial risk profile on account of its improving scale of operations, stable operating matrices and no additional debt funded capex plans over the medium term.

Weaknesses

• Working capital intensive nature of operations

VPTPL's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 116-218 days during last 3 years through FY2021 (Provisional). The company maintains an inventory of about 22 to 62 days and gives credit period of 123-127 days to its customers during last 3 years through FY2021 (Provisional). Its creditor's days stood at 139-181 days during the last 3 years through FY2021 (Provisional). Moderate working capital management and moderate accruals lead to moderate utilisation of its working capital limits at about 62 percent over the past six months ended June 2021. Acuité expects that VPTPL operations are expected to be the working capital intensive over the medium term.

• Exposure to supplier concentration risk and intense competition

As more than 90 percent of the raw material requirement (viscose fibre) is procured from Mothi spinner private limited (rated ACUITE A-/Stable/CRISIL A2+'), VPTPL is exposed to significant supplier risk concentration. However, longstanding relationship with the supplier mitigates this risk. Intense competition in the textile industry because of many unorganised players restricts pricing flexibility and bargaining power with customers and suppliers. The operating profitability of VPTPL is exposed to volatility in key raw material prices, including polyester and viscose, as it has relatively limited pricing flexibility in a fragmented industry.

Rating sensitivity

- Strong growth in revenues, while maintaining its healthy profitability and capital structure.
- Further stretch in the working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile and liquidity.

Liquidity Position: Adequate

VPTPL's liquidity is adequate marked by adequate cash accruals to its debt obligations. It reported cash accruals of Rs.14.43 Cr in FY2021 (provisional), its accruals are expected in the range of Rs.10.00-13.50 Cr in FY2022-24 against its repayment obligations of Rs.6-8 Cr during the same period. The operations are working capital intensive as reflected by its gross current asset (GCA) days of 218 in FY 2021 (Provisional), leading to the moderate utilisation of its limits at about 62 per cent during the last six months period ended June 2021. The current ratio of the company stands at 1.16 times and low cash and bank balances stood at Rs.10.08 Cr as on March 31, 2021 (Provisional). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term.

Outlook: Stable

Acuité believes that VPTPL will maintain a 'Stable' outlook over the medium term from its promoter's entrepreneurial experience. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of a decline in the company's revenues or profit margins, or any significant debt-funded capex leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	136.90	140.54
PAT	Rs. Cr.	3.60	2.54
PAT Margin	(%)	2.63	1.80
Total Debt/Tangible Net Worth	Times	1.57	1.80
PBDIT/Interest	Times	5.73	4.51

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

None

Any other information

None

Material Covenants

None

Applicable Criteria

- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Lender	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Axis Bank Limited	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/ Stable (Assigned)
Axis Bank Limited	Term Loan 1	26-Feb-2019	Not Available	26-02-2026	8.27	ACUITE BBB-/ Stable (Assigned)
Axis Bank Limited	Term Loan 2	17-12-2019	Not Available	30-09-2026	11.35	ACUITE BBB-/ Stable (Assigned)
Axis Bank Limited	Term Loan 3	04-03-2020	Not Available	30-09-2026	6.55	ACUITE BBB-/ Stable (Assigned)
Axis Bank Limited	Working Capital Term Loan (GECL)	Oct-2020	Not Available	Sept 2024	4.18	ACUITE BBB-/ Stable (Assigned)
Federal Bank Limited	Term Loan 1	June 2021	Not Available	May 2027	2.76	ACUITE BBB-/ Stable (Assigned)
Federal Bank Limited	Term Loan 2	July 2021	Not Available	June 2027	2.74	ACUITE BBB-/ Stable (Assigned)
Axis Bank Limited	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.15	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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