

Press Release

V P Tex Private Limited

November 04, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.00	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	52.00	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	55.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	108.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating to **'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). Acuite has assigned its long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs. 55.00 Cr bank facilities of (VPTPL). The outlook is **'Stable'**.

Rationale for the rating

The ratings continue to be supported by the experienced management and moderate financial risk profile. The rating is, albeit, constrained by its working capital intensive operations and exposure to supplier concentration risk and intense competition.

About the Company

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

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

Key Rating Drivers

Strengths

- **Promoter's extensive industry experience and established track record of the company**

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 personnels. 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.140 Cr to Rs. 268 Cr over the past three years through FY2022. VPTPL's revenue is expected to improve over the medium term driven by enhanced capacity from 80 airjet looms to 130 airjet looms in FY2022. 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 has remained moderate with moderate capital structure and debt protection metrics. The net worth of the company stood at Rs.40.91 Cr and Rs.28.90 Cr as on March 31, 2022 and 2021 respectively. The gearing of the company has been improving over the last 2 years ending March 31, 2022 as a result of lower debt and increase in net worth levels. It stood at 1.39 times as on March 31, 2022 against 1.59 times as on March 31, 2021. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 5.41 times and 2.14 times as on March 31, 2022 respectively as against 6.22 times and 2.73 times as on March 31, 2021 respectively. The decline in debt protection metrics is on account of increase in interest expense. The deterioration in DSCR ratio is on account of increase in repayment portion and increase in interest expense. TOL/TNW stood at 2.90 times and 3.60 times as on March 31, 2022 and 2021 respectively. 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 140 days as on March 31, 2022 as against 227 days as on March 31, 2021. The improvement in GCA days is on account of improvement in debtors days and inventory days. Inventory days stood at 25 days as on 31st March, 2022 as against 63 days as on 31 March, 2021. Subsequently, the payable period stood at 97 days as on March 31, 2022 as against 125 days as on March 31, 2021 respectively. The debtors day stood at 96 days as on March 31, 2022 as against 129 days as on March 31, 2021. Further, the average bank limit utilization in the last twelve months ended August, 22 remained at ~74.74 percent for fund based. 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 ACUTE 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 Sensitivities

- 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.

Material covenants

None

Liquidity Position: Adequate

The company has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.18.81 Cr in FY2022 as against the repayment of Rs.8.95 Cr for the same period and expected to generate cash accruals in the range of Rs.24-31 Cr. against current portion of long term debt (CPLTD) of Rs.6.3- 8.43 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 1.41 Cr as on March 31, 2022. The current ratio of the company stood at 1.12 times as on March 31, 2022. Acuité believes that VPTPL's liquidity will remain sufficient over the medium term backed by repayment of its debt obligations and improving accruals.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	268.40	137.13
PAT	Rs. Cr.	6.70	3.28
PAT Margin	(%)	2.50	2.39
Total Debt/Tangible Net Worth	Times	1.30	1.59
PBDIT/Interest	Times	5.41	6.22

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

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
06 Aug 2021	Term Loan	Long Term	2.74	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	11.35	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	6.55	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	8.27	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	2.76	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	2.15	ACUITE A3 (Assigned)
	Working Capital Term Loan	Long Term	4.18	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.21	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	7.03	ACUITE BBB- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	8.48	ACUITE BBB- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	5.12	ACUITE BBB- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	3.56	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	4.38	ACUITE BBB- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	3.36	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	2.52	ACUITE BBB- Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	2.55	ACUITE BBB- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	16.85	ACUITE BBB- Stable Assigned
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HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	10.20	BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	8.14	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	8.60	ACUITE BBB- Stable Assigned

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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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