Release
V P TEX YARN INDIA PRIVATE LIMITED
September 27, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	22.00	ACUITE BBB | Stable | Assigned	-
Total Outstanding Quantum (Rs. Cr)	22.00	-	-

Rating Rationale

Acuité has assigned its long-term rating of **'ACUITE BBB' (read as ACUITE t riple B)** on the Rs. 22.00 Cr. bank facilities of V.P. Tex Yarn India Private Limited (VPTYIPL). The outlook is **'Stable'.**

Rationale for rating assigned:

The rating upgrade take into account the improved scale of operations since the last three years ended FY2024 (Prov), the moderate financial profile of the group, and its adequate liquidity position. Group has undertaken capital expenditure towards increasing its production capacity by adding additional air jet looms of 216 for the three years ended FY2025 and increasing its solar power generation plant from 2 MW to 9 MW in FY2023 and FY2024. Despite the multiple capex's undertaken by the group, the financial risk profile of the group has not been significantly affected.

Acuite considers favorably the successful completion of various capex programs during the last 2 fiscals for enhancement of manufacturing capacity to reduce dependence on job work, thus reducing cost of operations. The rating also considers the promoter's extensive industry experience and established track record of the company.

The rating is, however, constrained on account of intensive working capital operations, exposure to supplier concentration risk, and intense competition in the textile industry.

About the Company

V P Tex Yarn India Private Limited is a group company of V. P. Tex Private Limited initially incorporated by Mr. V. Srinivasan and V. Vasudevan family in 2016 for manufacturing of fabrics and other allied textile activities. In 2021, Mr. Srinivasan and Mr. V. Vasudevan resigned from their managerial positions, and Ms. S. Manimeklai, Ms. V. Malathi, and Ms. Livya took directorship and management of the company. In which both Ms. S Manimekalai and

Ms. V. Malathi completed their graduation in Commerce and Ms. Livya in Fashion Designing. The company is into manufacturing various variety mixes of fabrics in viscose, micromodal, flax, cotton linen, and cotton flax activities through outside job works, including V.P. Tex Pvt Ltd., based on their customers demand. In the last three years, the company has become more focused and increased their in the domestic market gradually with value-added products. In FY 2023-24, the company installed 2 MW of solar projects on a group-captive basis and sold the entire generation to group companies. During the current FY, the company focuses on the most value-added segment, which yields good results in both the top and bottom lines.

About the Group

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. Vellappan Sengoda Goundar, Mr. Kirankumar Vasudevan, Mr. Vasudevan Velappan, Mr. Srinivasan Velappan and 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).

Unsupported Rating
Not applicable

Analytical Approach

Extent of Consolidation
• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support
For arriving at this rating, Acuité has consolidated the business and financial risk profiles of VPTPL and VPTYIPL together referred as 'V.P. Tex' Group. The consolidation is in the view of common management, similar line of business in textile processing industry, operational and financial linkages between the entities.

Key Rating Drivers

Strengths

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

  VP Tex Group promoters' have an established presence in the textile industry for nearly two decades with competent management supported by a team of qualified and experienced second-line personnel. This has helped the group build healthy relationships with its suppliers and customers to ensure a steady raw material supply and repeat business. Group's revenue is expected to improve over the medium term, driven by enhanced capacity from 130 airjet looms to 246 airjet looms in FY2024; further in the current year (i.e., FY2025), they are enhancing their capacity to 346 airjet looms and increasing their solar power generation plant from 2 MW to 9 MW in FY2023, FY2024. Acuité believes that Group is expected to benefit from its experienced management, established relations with its stakeholders, and local presence.

- **Stable scale of operations**

  Group's revenue improved to Rs. 406.42 Cr. in FY24 (Prov) as against Rs. 381.19 Cr. in FY23 and Rs. 310.25 Cr. in FY22. Group has already registered the revenue of Rs. 233.78 crore till August 2024. Steady growth in operating revenue is backed by steady flow of orders and an increase in capacity of air jet looms and a substantial increase in sales under V.P. Tex yarn India Private Limited in the current year. Out of total revenue of Rs. 406.42 Cr. in FY24 (Prov), Rs. 306.42 Cr. is through own manufacturing, and the balance is through job works. Profitability margin is in the range of 9.24 to 11.81 percent in the last three years ended FY2024, i.e., EBITDA margin stood at 11.81 percent in FY2024 (Prov) as against 11.47 percent in FY2023 and 9.24 percent in FY2022. The margin has improved as compared to FY2022 on account of completed capex, which has reduced the dependence on job work, thus reducing the cost of operations. Acuite believes that going forward, the margins would remain in the range of 11.5–11.8 percent, and revenue's are likely to show stable performance.

- **Moderate Financial risk profile**

  VP Tex Group's financial risk profile remained moderate with a moderate capital structure and healthy debt protection metrics. The net worth of the group stood at Rs.66.12 Cr. as on March 31, 2024 (Prov), Rs. 57.04 Cr. as on March 31, 2023, and Rs. 46.79

Cr. as on March 31, 2022, respectively. The gearing of the group has slightly deteriorated on account of the increase in debt levels in FY2023 and FY2024 (Prov) due to ongoing capex. Which stood at 2.08 times as on March 31, 2024 (Prov), 1.78 times as on March 31, 2023, and 1.14 times as on March 31, 2022. However, in the next one to two years, it is expected to improve on account of the repayment of the long-term debt. Debt protection metrics: interest coverage ratio and debt service coverage ratio stood at 4.67 times and 2.03 times as on March 31, 2024 (prov), respectively, as against 6.28 times and 2.43 times as on March 31, 2023, and 5.61 times and 2.23 times as on March 31, 2022. TOL/TNW stood at 3.15 times as on March 31, 2024 (Prov), 2.87 times as on March 31, 2023, and 2.82 times as on March 31, 2022, respectively. The debt to EBITDA of the group stood at 2.72 times as on March 31, 2024(Prov), 2.32 times as on March, 2023 and 1.84 times as on March 2022. 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 operations**

  Group's operations are working capital intensive in nature, as reflected by its gross current asset (GCA) days of 137 days in FY2024 (Prov) as against 120 days in FY2023 and 146 days in FY2022. However, there is slight deterioration in GCA days on account of deterioration in debtor days. Inventory days stood at 23 days in FY2024 (Prov) as against 21 days in FY2023 and 24 days in FY2022. The debtor day stood at 100 days in FY2024 (Prov) as against 87 days in FY2023 and 100 days in FY2022. Subsequently, the payable period stood at 69 days in FY2024 (Prov) as against 61 days in FY2023 and 99 days in FY2022, respectively. Further, the average bank limit utilization in the last twelve months ended August 24 remained at ~82 percent for fund-based. Acuité believes that the working capital management of the group will remain the same over the medium term.

- **Exposure to supplier concentration risk and intense competition**

  As more than 75 percent of the raw material requirement (viscose fiber) is procured from Mothi Spinner Private Limited (rated ACUITE BBB+/Stable/A2), the group is exposed to significant supplier risk concentration. However, a longstanding relationship with the supplier mitigates this risk. Intense competition in the textile industry because of many unorganized players restricts pricing flexibility and bargaining power with customers and suppliers. The operating profitability of the group 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

Liquidity Position: Adequate

The group has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.36.00 Cr. in FY2024(Prov) as against the repayment of Rs.12.19 Cr. for the same period and expected to generate cash accruals in the range of Rs.46- 52 Cr. against repayment of term loan of Rs.18.80- 24.09 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 2.71 Cr as on March 31, 2024(Prov). The current ratio of the group stood at 1.16 times as on March, 2024(Prov). Acuité believes that group's liquidity will remain sufficient over the medium term backed by repayment of its debt obligations and improving accruals.

Outlook: Stable

Acuité believes that the group 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 group'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 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	406.42	381.19
PAT	Rs. Cr.	9.18	11.59
PAT Margin	(%)	2.26	3.04
Total Debt/Tangible Net Worth	Times	2.08	1.78
PBDIT/Interest	Times	4.67	6.28

Status of non-cooperation with previous CRA (if applicable)
None

Any Other Information
None

Applicable Criteria
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.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
In order to inform the investors about complexity of instruments, Acuité 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 :
Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Federal Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	13.00	ACUITE BBB | Stable | Assigned
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.14	ACUITE BBB | Stable | Assigned
State Bank of India	Not avl. / Not appl.	Term Loan	04 Apr 2024	Not avl. / Not appl.	04 Jan 2031	Simple	8.86	ACUITE BBB | Stable | Assigned

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

Sr. No.	Company Name
1	V.P. Tex Private Limited
2	V. P. Tex Yarn India Private Limited

Contacts

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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.