

May 06, 2021

V.P.S. Textiles (India) Private Limited: Rating upgraded and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Cash Credit	3.00	3.00	[ICRA]B+ (Stable); upgraded from [ICRA]B (Stable) and withdrawn
Long-term – Term Loan	0.32	0.35	[ICRA]B+ (Stable); upgraded from [ICRA]B (Stable) and withdrawn
Long-term - Unallocated	4.68	4.65	[ICRA]B+ (Stable); upgraded from [ICRA]B (Stable) and withdrawn
Total	8.00	8.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade of V.P.S. Textiles (India) Private Limited (VPS) reflects the improvement in operating performance and liquidity position in the recent quarters. The same is on the back of recovery in demand, coupled with improved working capital requirements with change in product profile from cotton yarn to blended yarn. Despite the said improvement, the company's financial risk profile remains moderate constrained by high leverage indicators and modest coverage indicators. However, the rating factors in the experience of the promoters in the business, which lends stability to its volumes as witnessed over the years. Nevertheless, the rating is constrained by the intense competition in the fragmented domestic spinning industry, which limits VPS's pricing flexibility and exposes its earnings to fluctuations in raw material prices as witnessed in the recent quarters.

The rating for the bank facilities of VPS has been withdrawn at the request of the company and based on the no objection certificate received from the lender. The same is in accordance with ICRA's policy on withdrawal and suspension.

Key rating drivers and their description

Credit strengths

Experienced promoters; recent shift to blended yarn likely to limit working capital requirements – The company's promoters have over a decade of experience in the textile industry, resulting in established relationship with customers, which lends stability to volumes as witnessed over the years. It has also changed its product profile from cotton yarn to blended yarn in the recent fiscals. This has, further, resulted in demand stability, limited fluctuations in raw material prices and working capital requirements.

Credit challenges

Modest financial profile characterised by high leverage indicators – The capital structure remained leveraged on the back of working capital requirements in the business owing to moderately high debt levels and low net worth base. Consequently, the coverage indicator remained weak, with TD/OPBITDA of 5.5 times and 3.6 times and TOL/TNW of 1.1 times and 1.0 times in FY2020 and 9M FY2021 respectively. However, its DSCR is expected to remain adequate, despite the proposed near-term debt-funded capital expenditure, supported by the earnings.

Small scale of operations amid intense competition – The company's scale of operations has remained small over the years as witnessed from revenue of Rs. 15.8 crore and Rs. 14.9 crore in FY2019 and FY2020 respectively. Moreover, the spinning industry is highly fragmented with presence of numerous small to mid-sized players. Thus, small scale of operations amid stiff competition limits its bargaining power and exerts pressure on its margins, which are exposed to fluctuations in raw material prices.

Liquidity position: Adequate

The company's liquidity position has improved on the back of better earnings in the recent quarters, coupled with realisation of loans extended to its group company and better working capital cycle. The same has resulted in a cash buffer of Rs. 2.0 crore as on December 31, 2020 which includes free cash reserves and unutilised lines of credit. The cash buffer and expected cash accruals of Rs. 0.6 crore in the near term is likely to support the debt repayment of Rs. 0.4 crore in FY2022 and the margin money requirement for the ongoing debt-funded capital expenditure.

Rating sensitivities

Positive factors – Not applicable as the rating is being withdrawn

Negative factors – Not applicable as the rating is being withdrawn

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry - Spinning Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financial statements of V.P.S. Textiles (India) Private Limited

About the company

V.P.S. Textiles (India) Private Limited was incorporated in 2006 and manufactures cotton polyester yarn of the fine count range of 60's. Its spinning mill is in R. Vadipatti in Tamil Nadu and has a spindle capacity of 11,636 spindles. It is a closely-held company managed by Mr. Pradeep Sundar, who is also the Director of Shri Vasanthraj Textiles Private Limited, which is into the same line of business.

Key financial indicators (audited)

Prabha Industries	FY2019	FY2020
Operating Income (Rs. crore)	15.8	14.9
PAT (Rs. crore)	0.5	0.3
OPBDIT/OI (%)	6.3%	5.0%
RoCE (%)	7.1%	5.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.1
Total Debt/OPBDIT (times)	7.0	5.5
Interest Coverage (times)	2.6	2.3
DSCR (times)	2.1	2.1

Source: Company

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					May 06, 2021	-	Jan 21, 2020	Jun 28, 2019	-
1	Cash Credit	Long term	3.00	2.50	[ICRA]B+(Stable); withdrawn	-	[ICRA]B (Stable)	[ICRA]C	-
2	Term Loan	Long term	0.35	0.35	[ICRA]B+(Stable); withdrawn	-	[ICRA]B (Stable)	[ICRA]C	-
3	Unallocated Limits	Long term	4.65	-	[ICRA]B+(Stable); withdrawn	-	[ICRA]B (Stable)	[ICRA]C	-

Source: Company

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	3.00	[ICRA]B+ (Stable); withdrawn
NA	Term Loan	Nov 2020	-	Nov 2026	0.35	[ICRA]B+ (Stable); withdrawn
NA	Unallocated limits	-	-	-	4.65	[ICRA]B+ (Stable); withdrawn

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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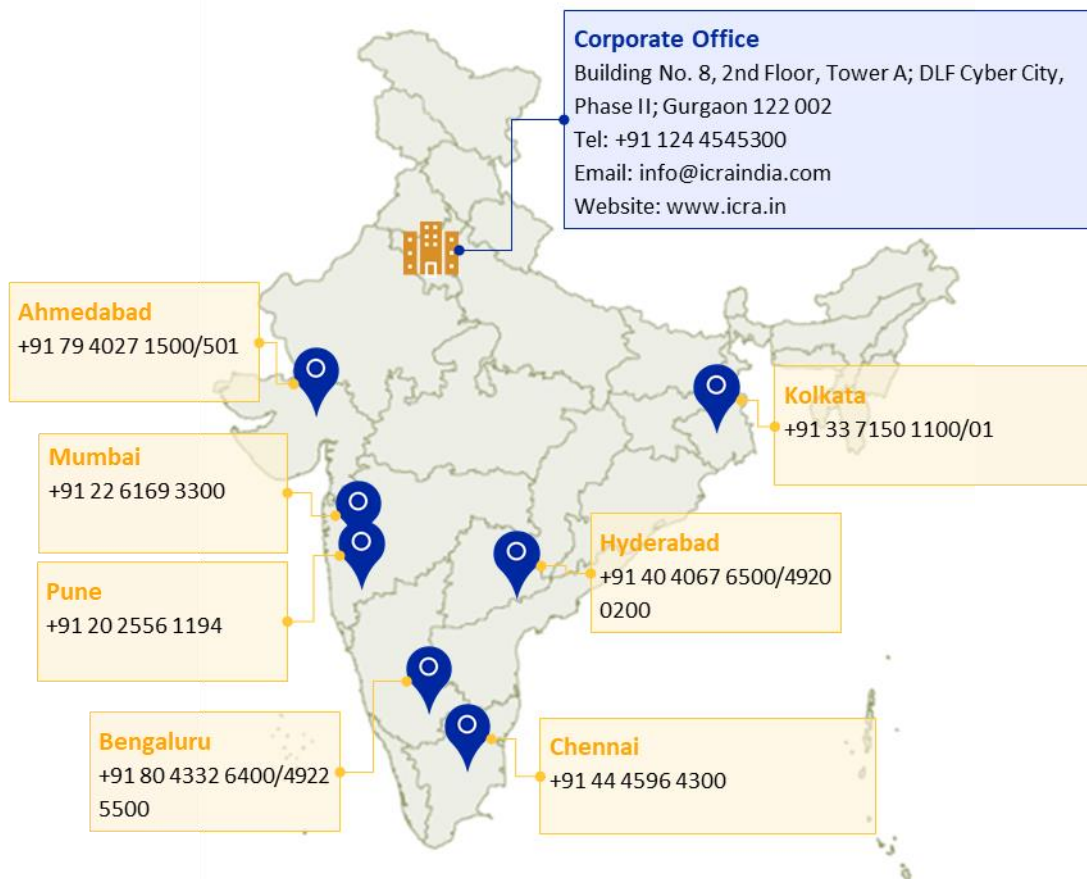


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