December 19, 2022

Chiripal Textile Mills Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Term Loan	82.12	69.41	[ICRA]BBB+ (Stable); reaffirmed
Fund Based-Cash Credit	21.00	21.00	[ICRA]BBB+ (Stable); reaffirmed
Non-Fund Based	6.00	6.00	[ICRA]A2; reaffirmed
Unallocated	36.88	49.59	[ICRA]BBB+ (Stable)/[ICRA] A2; reaffirmed
Total Bank Facilities	**146.00**	**146.00**	

*Instrument details are provided in Annexure-1

Rationale

While arriving at the ratings, ICRA has consolidated the financials of Vishal Fabrics Limited (VFL) and its four associate concerns — Dholi Spintex Private Limited (DSPL), Chiripal Textile Mills Private Limited (CTMPL), Nandan Industries Private Limited (NIPL), and Quality Exim Private Limited (QEPL) — owing to substantial business, financial and managerial interlinkages among these entities. These entities are collectively referred to as the Group. The analytical approach follows the demonstrated track record of adherence to sales arrangement among the above-mentioned companies. While VFL sells the final product (denim fabric) to external customers, the other four associate companies provide backward integration and supply intermediate products to VFL. There are significant operational linkages and fungibility of cash flows among these companies.

The reaffirmation of ratings factors in the expectations of a sustained healthy performance in the near-to-medium term, following robust improvement in the Group's turnover and profits in FY2022 owing to a surge in demand for denims/cotton fabric and yarns during the year. Following a 98% YoY revenue growth in FY2022 on the back of increased volumes and realisations, the Group is expected to maintain its turnover in the current fiscal, largely driven by volumes, with correction expected in realisations in H2 FY2023. Realisations remained elevated and at all-time highs in H1 FY2023 and FY2022. This apart, the Group's profitability is expected to remain healthy in the near-to-medium term, led by its significant backward integrated operations (the Group has presence across spinning, dyeing, weaving and processing), enabling it to have better management of its cost structure against its peers. While the Group's repayment obligations remain sizeable over FY2023-FY2025 and the overall debt levels remain elevated, which constrain its coverage and credit metrics (DSCR of ~1.6 times and total debt/OPBITDA of ~3.2 times reported in FY2022), sustained healthy performance is expected to keep the credit and coverage metrics adequate. Further, increased working capital requirements due to increased scale and raw material prices in FY2022 and H1 FY2023 resulted in limited cushion in the available working capital limits. Nonetheless, ICRA expects timely enhancement of fund-based working capital limits in the group entities is expected to improve the buffer in the working capital limits and the overall liquidity position of the Group in the near-to-medium term.

The ratings continue to draw comfort from the experience of the Group's promoters in the textile industry, especially in denim fabric manufacturing, leading to a successful ramp-up of its operations. Further, the ratings factor in its financial flexibility for being a part of the Chiripal Group. The ratings also draw comfort from its significant backward integration within the denim value chain, which lends competitive advantage against its peers. This also allows the Group to manage its cost structure better, besides offering logistical advantages with its plants located in the cotton growing belt of Gujarat and plants of its Group entities located in a textile park. However, the ratings continue to be constrained by the leveraged capital structure and working capital intensive nature of operations. Moreover, the ratings factor in the inherent cyclicality associated with the textile sector and the vulnerability of its profitability to fluctuations in raw material prices (primarily cotton). The ratings note the pressure on its profitability because of stiff competition and the prevalent overcapacity in the denim industry.

The Stable outlook on the ratings emphasises ICRA's expectation that the company will be able to maintain its healthy profitability metrics and adequate liquidity to meet sizeable scheduled repayments, which are expected to reduce the Group's debt levels gradually and improve its leverage and coverage metrics over the medium term.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and financial flexibility for being a part of the Chiripal Group – The Group's promoters, Mr. Vedprakash Chiripal and Mr. Brijmohan Chiripal, have more than four decades of experience in the textile industry. The Group of five entities is a part of the Chiripal Group, which has been present in the textile business since 1972 and enjoys diversified operations in the textile value chain with manufacturing of partially-oriented yarn (POY), fully drawn yarn (FDY) and draw texturised yarn (DTY), along with fabric processing. ICRA believes that the Group will continue to benefit from its promoters' extensive industry experience. The management has demonstrated its ability to leverage its experience and quickly ramp up capacities in the past.

Healthy ramp-up in operating performance –The Group reported a healthy improvement in performance in FY2022, following a subdued performance in FY2021 owing to pandemic-led disruptions as well as muted demand trends for denim fabric. Further, the company's performance sustained in H1 FY2023, led by both sustained high realisations and volumes. While the improvement in volumes was led by a healthy recovery in demand for yarns as well as fabrics/ denims, an increase in realisations was driven by a corresponding increase in raw material prices, besides an improvement in demand. At the consolidated level, the operating income for the Group stood at Rs. 1,753 crore in FY2022, compared to Rs. 884 crore in FY2021. Further, the Group's operating margins continued to be healthy at around ~16% in FY2022, led by increased scale, despite a rise in raw material prices.

Proximity of manufacturing facility to cotton growing belt and backward integrated operations support operational risk profile – The Group's manufacturing facilities are located at Dholi Integrated Textile Park (DITP) in Dholka, Ahmedabad (Gujarat), in proximity to the cotton growing belt in Gujarat. To backward integrate its operations, the Group has established entities in spinning, dyeing, weaving and processing, which enable better management of its cost structure and aid in higher profitability against its competitors. VFL sources yarn from its Group companies in DITP, such as Chiripal Industries Limited and DSPL. Dyed yarn is sold to weaving entities such as CTMPL, NIPL and QEPL. The woven fabric is sold back to VFL, which further processes and sells it to apparel manufacturers and convertors across the country.

Credit challenges

Average financial risk profile – The overall debt levels remain high due to the debt-funded capex undertaken in the past fiscals for setting up of capacities. Moreover, the Group had availed additional sanctions of ~Rs. 222 crore under various Covid relief schemes announced by the RBI in FY2021 and FY2022, to shore up its liquidity. While the incremental loans supported the Group's liquidity, these also resulted in a further increase in its repayment obligations from FY2023. Notwithstanding the improvement in the Group's scale and profits, high repayment obligations during FY2023-FY2025 are likely to keep its coverage metrics modest (with DSCR expected at less than 1.5 times). In this context, comfort is drawn from the Group's expected healthy cash profits generation, going forward. This apart, in the current fiscal, the Group plans to avail additional sanction of Rs. 90 crore of term loans for its ongoing capex for installation of windmills and solar panels. The utilities are expected to cover 25% of the Group's overall power requirements with complete positive impact in margins expected to be visible from FY2024. With no major debt raising plans incrementally and repayments scheduled to decline from FY2026, the coverage metrics are projected to improve in the medium term.

Demand-supply challenges in the denim industry – The denim industry has witnessed significant cyclicality in the past, with periods of excess capacity in the market as well as of tight demand-supply situations. As a result, the Group remains exposed to the risk of over-supply in the domestic market.

Vulnerability of profitability to any adverse fluctuation in key raw material prices – The Group's margins are primarily affected by the raw material price fluctuation, which affects sales realisations. Any adverse movement in the price of key raw materials, such as cotton, could have an adverse impact on the Group's margins, as it may not be able to pass on the price hike to its customers owing to stiff competition and overcapacity in the industry. ICRA believes that the Group's integrated set-up would cushion the impact of adverse movement of raw materials to an extent.

Liquidity position: Stretched

The Group's liquidity position is stretched, as reflected in an average cushion of ~Rs. 46 crore in the Group's fund-based limits in the six-month period ended in September 2022, with utilisation standing at an average of ~82%. With increased working capital requirements, the Group's liquidity had been supported by access to the Guaranteed Emergency Credit Line (GECL) loans in the recent months. While the Group's repayments are sizeable at around Rs.120 crore to Rs. 130 crore per annum during FY2024-FY2026, it does not have any major incremental capex plans in the near-to-medium term. The Group's cash flow from operations are expected to be adequate to meet the debt repayments as well as margin requirements for capital expenditure. This apart, ICRA expects the cushion in the working capital limits to be adequate, going forward, with timely sanction of the enhancement of the Group's fund-based working capital limits.

Rating sensitivities

Positive factors – The ratings may be upgraded if a sustained healthy improvement in scale, profitability and working capital intensity translates into a material improvement in the return and coverage metrics, and liquidity profile. Key metrics that may lead to ratings upgrade include RoCE of above 12% and DSCR of more than 1.8 times on a sustained basis.

Negative factors – Pressure on the ratings could emerge if sustained performance pressure and/or a stretch in the working capital intensity result in weakening in the company's coverage metrics and liquidity profile. Inability to reduce Debt/ OPBDITA to less than 3 times on a sustained basis could also trigger ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Indian textiles Industry - Spinning Rating Methodology for Indian textiles Industry – Fabric Making Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of various Group entities (as mentioned in Annexure-2), given the close business, financial and managerial linkages among them.

About the company

Chiripal Textile Mills Private Limited, incorporated in 1981, has a ~26-million metre per annum (MMPA) fabric weaving plant at Dholi in Ahmedabad, Gujarat. The company is part of the Ahmedabad-based Chiripal Group, which enjoys presence in industries such as textiles, education, real estate, packaging, and chemicals. CTMPL had commissioned its plant in a phased manner over FY2017 and H1 FY2018 and has installed a total of 207 looms, of which 192 are owned looms and 15 are taken on long-term lease from its Group company.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating Income (Rs. crore)	884	1,753
PAT (Rs. crore)	32	109
OPBDIT/OI (%)	20.5%	16.2%
PAT/OI (%)	3.6%	6.2%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	1.7
Total Debt/OPBDIT (times)	5.1	3.2
Interest Coverage (times)	2.5	3.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years			
		Type	Amt rated (Rs. crore)	Amt outstanding (Rs. crore)*	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					Dec 19, 2022	Aug 03, 2022	Mar 31, 2022	Apr 20, 2021	Jun 15, 2020	Feb 13, 2020
1	Fund based – Term Loan	Long term	69.41	69.41	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)
2	Fund Based-Cash Credit	Long term	21.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)
3	Non-Fund Based	Short term	6.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Unallocated	Long/ Short term	49.59	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2

**Outstanding as on Sep 30, 2022*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based – Term Loan	Simple
Fund Based-Cash Credit	Simple
Non-Fund Based	Very Simple
Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's 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	**Fund based – Term Loan**	FY2018	NA	FY2026	69.41	[ICRA]BBB+ (Stable)
NA	**Fund Based-Cash Credit**	NA	NA	NA	21.00	[ICRA]BBB+ (Stable)
NA	**Non-Fund Based**	NA	NA	NA	6.00	[ICRA]A2
NA	**Unallocated**	NA	NA	NA	49.59	[ICRA]BBB+ (Stable)/[ICRA]A2

Source: VFL, CTMPL, DSPL, QEPL and NIPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	CTMPL Ownership	Consolidation Approach
Chiripal Textile Mills Private Limited	NA	Full Consolidation
Dholi Spintex Private Limited	NA	Full Consolidation
Vishal Fabrics Limited	NA	Full Consolidation
Quality Exim Private Limited	NA	Full Consolidation
Nandan Industries Private Limited	NA	Full Consolidation

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About ICRA Limited:

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