February 29, 2024

Vinit Gloves Manufacturing Pvt Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Overdraft	(3.00)	(3.00)	[ICRA]BBB (Stable); reaffirmed
Non-fund Based – Bank Guarantee	(0.50)	(0.50)	[ICRA]BBB (Stable); reaffirmed
Fund Based – Working Capital Facilities	18.00	18.00	[ICRA]A3+; reaffirmed
Non-fund based – Letter of Credit	0.75	0.75	[ICRA]A3+; reaffirmed
Non-fund Based – Forward Contract Limit	3.50	3.50	[ICRA]A3+; reaffirmed
Total	**22.25**	**22.25**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for Vinit Gloves Manufacturing Pvt Ltd (VGMPL) comes on the back of its performance, which has been in line with ICRA's estimates besides expectation of a stable performance going forward. VGMPL's operating income had grown by ~25% in FY2023 on a YoY basis to Rs.106.6 crore. The ratings continue to consider VGMPL's long presence in the industrial safety products, along with its established relationships with its clients, which help in generating repeat orders and reflect its acceptable product quality. The ratings favourably factor in the company's conservative capital structure and strong debt coverage indicators. The ratings also consider the company's backward integration resulting from its tannery unit, which contributes around 60% to the finished leather requirements, enhancing its cost competitiveness and operational efficiency.

The ratings, however, are constrained by the intense competition in the industry, scale of operations and VGMPL's low bargaining power against its large clients, which keep the margins under check. The ratings also consider VGMPL's exposure to geographical and client concentration risks. It derived around 65% of its sales in FY2023 from four countries, while the top five customers contributed around 50% to FY2023 sales. ICRA notes that the company is vulnerable to foreign exchange fluctuation risk as its entire sales come from the export markets, although the same is mitigated to an extent as the company hedges 60-70% of its forex exposure through forward covers. VGMPL also remains susceptible to adverse changes in export incentives in India and foreign trade policies of importing countries.

The Stable outlook on the long-term rating reflects ICRA's expectation that VGMPL is likely to sustain its operating metrics even though its revenue growth may moderate, and the entity has no major debt-funded capex plans.

Key rating drivers and their description

Credit strengths

Established presence in industrial safety products industry – VGMPL has been involved in manufacturing and export of industrial gloves for around two decades. The company derives more than 98% of its revenue from industrial leather gloves, exposing it to significantly high product concentration risk. However, VGMPL's established track record of operations, along with the promotors' extensive experience and established relationships with its clientele mitigate the operational risk to an extent. It is recognised as a Star Export House by the Ministry of Commerce and Industry.

Established relationship with clientele strengthens operational profile – VGMPL has a reputed and established client base across multiple countries and receives recurring orders, which demonstrate its acceptable product quality.

Conservative capital structure and strong debt coverage indicators – VGMPL's capital structure has remained conservative over the years, aided by its low reliance on external borrowings and consistent accretion to reserves. The total debt/ TNW and TOL/TNW stood at 0.01 times and 0.4 times, respectively, as on March 31, 2023. The coverage indicators also remain strong, as reflected by an interest coverage and total debt/OPBDITA of 23.6 times and 0.1 times, respectively in FY2023. The RoCE also stood at a comfortable level of 24.3% in FY2023.

Backward integration resulting from its own tannery – Backward integration facilitates seamless operations for VGMPL, leading to reduced production cost. The entire leather manufactured in the tannery is utilised in the gloves manufacturing facility, fulfilling approximately 60% of the total leather requirement. The remaining requirement for finished leather is sourced locally from West Bengal.

Credit challenges

Stiff competition in safety wear industry exerts pressure on margins – VGMPL's faces intense competition from many organised and unorganised players in the safety-wear manufacturing business. Given the low value-added nature of the products and limited bargaining power against large overseas clientele limit VGMPL's pricing power. This keeps margins under pressure despite export incentives received from the Government of India (GoI).

Moderate geographical and customer concentration risks – VGMPL has a wide geographical presence as its products were shipped to more than 24 countries in FY2023. Despite that, VGMPL is exposed to moderate geographical concentration risk as around 65% of its revenues in FY2023 (63% in FY2022) was derived from only four countries. Similarly, it is also exposed to client concentration risk as the top five customers contributed around 50% to its sales in FY2023 (54% in FY2022).

Vulnerability to adverse changes in export incentives and international trade policies – Being a 100% export-oriented entity, VGMPL's profitability is supported by the export incentives received from the Government of India (GoI). Any adverse change in the rate of export incentives or the trade policies of importing nations may hamper the cost competitiveness of the company's products.

Exposed to foreign exchange rate fluctuation risk – VGMPL derives 100% of its sales from export markets, which expose it to the foreign exchange rate fluctuation risk. However, the company normally hedges 60-70% of its forex exposure through forward cover. In addition, import of some raw materials provides a partial natural hedge. These factors mitigate the foreign exchange rate fluctuation risk to a large extent.

Liquidity position: Adequate

VGMPL's liquidity is expected to remain adequate. Its fund flow from operations stood at Rs. 9.0 crore in FY2023 (Rs. 5.9 crore in FY2022). The cash flow from operations in FY2023 stood at Rs. 17.7 crore. The average utilisation of fund-based working capital limits stood ~16% during the 12-month period ended in December 2023, leaving the company with adequate buffer to meet exigencies. In addition, the company has repayment obligations of Rs. 0.15 crore and Rs. 0.17 crore in FY2024 and FY2025, respectively. Lack of major debt-funded capex is expected to keep the liquidity of the company adequate over the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade VGMPL's ratings if it is able to significantly scale up its operations while maintaining profitability on a sustained basis and strengthening its net worth.

Negative factors – Pressure on VGMPL's ratings could arise if there is a decline in earnings, adversely impacting the liquidity or debt protection metrics of the company.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financials of VGMPL.

About the company

Incorporated in 2001, VGMPL makes leather gloves for industrial usages. It has a tannery unit for captive consumption. The glove manufacturing unit is located at Udayan Industrial Estate, West Bengal, while the tannery unit is located at Kolkata Leather Complex. VGMPL is a 100% export-oriented unit. The company's major export destinations in FY2023 were France, the US, Germany and Japan. VGMPL is recognized as a Star Export House by the Ministry of Commerce and Industry, Government of India.

Key financial indicators (audited)

	FY2022	FY2023	9M FY2024*
Operating income	85.7	106.6	70.3
PAT	4.7	7.8	6.4
OPBDIT/OI	9.4%	11.4%	9.9%
PAT/OI	5.5%	7.3%	9.2%
Total outside liabilities/Tangible net worth (times)	0.8	0.4	0.5
Total debt/OPBDIT (times)	1.2	0.1	0.4
Interest coverage (times)	15.8	23.6	105.4

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

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 (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Feb 29, 2023	Dec 15, 2022	Nov 09, 2021	Oct 07, 2020	Apr 07, 2020
1	Cash Credit	Long term	--	--	--	--	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB-@; rating watch with negative implications
2	Overdraft	Long term	(3.00)	--	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	--	--	--
3	Bank Guarantee	Long term	(0.50)	--	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB-@; rating watch with negative implications
4	Working Capital Facilities	Short term	18.00	--	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	--	-
5	Letter of Credit	Short term	0.75	--	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3@; rating watch with negative implications
6	Forward Contract Limit	Short term	3.50	--	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	--	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Overdraft	Simple
Bank Guarantee	Very Simple
Working Capital Facilities	Simple
Letter of Credit	Very Simple
Forward Contract Limit	Very Simple

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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Overdraft**	NA	NA	NA	(3.00)	[ICRA]BBB (Stable)
-	**Bank Guarantee**	NA	NA	NA	(0.50)	[ICRA]BBB (Stable)
-	**Working Capital Facilities**	NA	NA	NA	18.00	[ICRA]A3+
-	**Letter of Credit**	NA	NA	NA	0.75	[ICRA]A3+
-	**Forward Contract Limit**	NA	NA	NA	3.50	[ICRA]A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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