

October 04, 2017

Vindhya Spinning Mills Private Limited

Summary of rated instruments

Instruments*	Amount Rated (Rs. crore)	Rating Action
Long-term: Term Loan	13.00 (revised from 10.91)	[ICRA]BBB- (Stable) reaffirmed
Long-term: Cash Credit	10.00 (revised from 7.50)	[ICRA]BBB- (Stable) reaffirmed
Long/Short-term: Unallocated	0.02 (revised from 0.01)	[ICRA]BBB- (Stable) / A3 reaffirmed
Total	23.02	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BBB- (pronounced ICRA triple B minus)¹ assigned to the Rs. 13.00-crore (revised from Rs. 10.91 crore) term-loan facility and Rs. 10.00-crore (revised from Rs. 7.50 crore) cash-credit facility of Vindhya Spinning Mills Private Limited (VSMPL)². ICRA has also reaffirmed the long/short-term rating at [ICRA]BBB- /A3 assigned to the Rs. 0.02-crore (revised from Rs. 0.01 crore) unallocated facility of the company. The outlook on the long-term rating is Stable.

Rationale

The ratings reaffirmation considers significant experience of the promoters in the spinning industry and the company's established relationship with its customers in the domestic market, which supports regular order flow. The ratings also factor in the adequate financial risk profile of the company, marked by a moderate gearing of 0.6 times as on March 31, 2017, healthy coverage indicators with NCA/Total Debt at 32%, interest coverage at 4.1 times and Total Debt/ OPBITDA at 1.8 times, respectively in FY2017. Additionally, VSMPL's revenues witnessed a growth of 28% in FY2017 on account of increase in volumes and yarn realisations in FY2017. However, the ratings are constrained by the company's modest scale of operations which limit the benefits from economies of scale, and its presence in a highly fragmented industry characterised by intense competition, which restricts its pricing flexibility. The margins remain exposed to fluctuations in cotton and yarn prices, as witnessed in the past few years. Going forward, consistently healthy utilisation of its existing capacities, improvement in scale and margins and efficient management of the working capital will remain crucial determinants of its credit profile.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- **Long experience of the promoters in the textile industry:** The ratings derive comfort from the experience of the promoters in the spinning industry for over two decades and their active involvement in operations.
- **Healthy financial risk profile:** The capital structure of the company is comfortable with gearing of 0.6 times as on March 31, 2017. The coverage indicators also remain adequate with interest coverage of ~4.1 times, Total Debt/OBDITA of 1.8 times and NCA/Debt of 32% in FY2017.
- **Established relationship with customer base support regular order flow:** The company has resilient business ties with its customers, which supports regular order flow over the years.

Credit weaknesses

- **Moderate scale of operations:** The current scale of operations of VSMPL remains moderate at Rs. 131.2 crore, albeit a growth of 28% in FY2017, which restricts the economies of scale.
- **Margins susceptible to fluctuations in market prices of cotton and yarn:** The profitability remains exposed to volatility in cotton and yarn prices and the inability to pass on any increase in raw material prices to the end customer may adversely impact the profitability, as witnessed in the past few years.
- **Highly fragmented industry with presence of a large number of players and intense competition:** The domestic spinning industry is highly fragmented in nature with capacities concentrated in Tamil Nadu, Maharashtra, Gujarat, Andhra Pradesh and Punjab. VSMPL is a medium-sized player in the highly-fragmented domestic spinning industry, resulting in pressure on margins.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Indian Textiles Industry - Spinning](#)

About the company:

Vindhya Spinning Mills Private Limited commenced operations in 1997 with an installed capacity of 6,000 spindles. Over the years, the company has increased its capacities in a phased manner to reach the current capacity of 36,452 spindles. VSMPL primarily manufactures medium counts range of cotton yarn and also grey fabric, with fabric conversion being completely outsourced. The company's manufacturing facility is located in Sivakasi, Tamil Nadu.

According to audited financial statements, the company recorded an operating income of Rs. 131.2 crore with net profit of Rs. 1.4 crore in FY2017 compared to an operating income of Rs. 102.6 crore with net profit of Rs. 1.5 crore in FY2016.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	102.6	131.2
PAT (Rs. crore)	1.5	1.4
OPBDIT/ OI (%)	7.4%	7.0%
RoCE (%)	9.9%	9.4%
Total Debt/ TNW (times)	0.7	0.6
Total Debt/ OPBDIT (times)	2.5	1.8
Interest coverage (times)	4.8	4.1
NWC/ OI (%)	16.0%	12.9%

OI: Operating Income; 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);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not applicable.

Rating history for last three years:

Table:

S. No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Date & rating	Month - year & Rating in FY2017		Month - year & Rating in FY2016	Month - year & Rating in FY2015	
				Oct, 2017	Dec 2016	Oct 2016	Mar 2016	Sep 2014	
1	Term Loan	Long term	13.00	[ICRA]BB B- (Stable)	[ICRA]BB B- (Stable)	[ICRA]BB B- (Stable)	[ICRA]BB B- (Stable)	[ICRA]BB B- (Stable)	
2	Cash Credit	Long Term	10.00	[ICRA]BB B- (Stable)	[ICRA]BB B- (Stable)	[ICRA]BB B- (Stable)	[ICRA]BB B- (Stable)	[ICRA]BB B- (Stable)	
3	Unallocated	Long/Short term	0.02	[ICRA]BB B- (Stable) / A3	[ICRA]BB B- (Stable) / A3	[ICRA]BB B- (Stable) / A3	[ICRA]BB B- (Stable) / A3	[ICRA]BB B- (Stable) / A3	

*sub-limit

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 www.icra.in

Annexure-1
Instrument Details

ISIN No.	Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan 1	29/09/2010	-	01/02/2018	0.26	[ICRA]BBB-(Stable)
-	Term Loan 2	27/03/2013	-	01/05/2023	2.07	[ICRA]BBB- (Stable)
-	Term Loan 3	12/12/2014	-	01/04/2023	4.16	[ICRA]BBB- (Stable)
-	Term Loan 4	12/12/2014	-	01/04/2023	2.87	[ICRA]BBB- (Stable)
-	Term Loan 5	30/12/2016	-	01/10/2022	3.64	[ICRA]BBB- (Stable)
-	Cash Credit	-	-	-	10.00	[ICRA]BBB- (Stable)
-	Unallocated	-	-	-	0.02	[ICRA]BBB- (Stable) / A3

Source: VSMPL

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