

Vanya Designer

June 19, 2018

Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--------------|-----------------------------------|----------------------------------|--|
| Cash Credit | 7.50 | 7.50 | [ICRA]B(Stable); Revised from [ICRA]B+(Stable) |
| Total | 7.50 | 7.50 | |

*Instrument details are provided in Annexure-1

Rating action

ICRA has revised the long-term rating to [ICRA]B (pronounced ICRA B) from [ICRA]B+ (pronounced ICRA B plus) for the Rs. 7.50-crore¹ working capital limits of Vanya Designer (VD or the company)². The outlook on the long-term rating is Stable.

Rationale

The rating revision follows the significant decline in scale of operations and partner's capital withdrawal in FY2018, which led to a highly leveraged capital structure and modest coverage indicators. The rating is further constrained by the intense competition prevailing in the apparel industry in Surat (Gujarat) due to the presence of many organised and unorganised players. The rating continues to be restricted by the working capital-intensive operations.

The rating, however, favourably considers the long-standing experience of the partners in the apparel industry; its diversified product portfolio; and the locational advantage in terms of material procurement and outsourcing to downstream processing units by virtue of being situated in Surat.

Outlook: Stable

ICRA believes VD will continue to benefit from the extensive experience of its promoters and the location advantage of being situated in Surat. The outlook may be revised to Positive if substantial growth in revenue and profitability and better working capital management strengthen the financial risk profile. The outlook may be revised to Negative if revenues and cash accrual are lower than expected or if further advances extended to associates concerns or further stretch in the working capital cycle weakens liquidity.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Longstanding experience of partners - The firm is promoted and managed by Mr. Rajesh Kedia and Mr. Jitesh Chhajed, who have more than a decade of experience in the garment manufacturing business. This experience of the promoter has helped the firm to gain competitive advantage in terms of procurement and product marketing.

Locational advantage due to proximity to raw material sources and processing units -The firm procures grey fabric from local suppliers and outsources key manufacturing activities such as pre-treatments, dyeing, printing and embroidery work to various textile processing mills. Surat, being a major textile belt of Gujarat, provides easy access to quality raw materials and downward processing units.

Credit Challenges

Decline in scale of operations in FY2018 following GST implementation - The firm's operating income declined by 39% to Rs. 18.9 crore in FY2018 as implementation of Goods and Service Tax (GST) led to subdued demand, followed by a strike in the Surat textile market protesting the GST rates.

Adverse capital structure and high working capital intensity – The total debt of the firm increased to Rs. 11.1 crore as on FY2018-end from Rs. 9.5 crore as on FY2017-end on account of higher working capital intensity as reflected by NWC/ OI of 66% as on FY2018-end against 38% as on FY2017-end. The firm had high inventory holding as on FY2018-end mainly on account of sales return of pre-GST stock by customers as well as subdued demand.

Intense competition - The textile industry is characterised by intense competition across value chain due to high fragmentation and low entry barriers. VD faces competition from numerous organised and unorganised players, thereby limiting its pricing power.

Risk inherent in partnership firm - In FY2018, the partners withdrew Rs. 1.77 crore due to which the net worth declined to Rs 2.07 crore as the firm's liquidity profile experienced a stretch.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Vanya Designer was established in June 2012 by Mr. Rajesh Kedia and Mr. Jitesh Chhajed. It manufactures sarees, salwar suits and lehngas. Initially VD started with manufacturing of sarees and subsequently expanded its product portfolio to include salwar suit and lehngas. In FY2018, it added kurtis into its product portfolio. VD sales its products under a single brand name "Heart & Soul". VD outsources the key activities such as pre-treatments, dyeing-printing and embroidery work to various textile processing mills. The remaining activities such as cutting and packaging are performed in house. The company operates from Surat, Gujarat.

Key financial indicators (audited)

| | FY2016 | FY 2017 |
|------------------------------|--------|---------|
| Operating Income (Rs. crore) | 33.20 | 31.01 |
| PAT (Rs. crore) | 0.47 | 0.57 |
| OPBDIT/ OI (%) | 4.38% | 5.53% |
| RoCE (%) | 16.76% | 14.73% |
| Total Debt/ TNW (times) | 4.07 | 3.07 |
| Total Debt/ OPBDIT (times) | 5.36 | 5.52 |
| Interest coverage (times) | 1.65 | 1.64 |

Source: VD's financials and ICRA research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

| Instrument | Type | Current Rating (FY2019) | | | Chronology of Rating History for the past 3 years | | |
|------------|-------------|--------------------------|--------------------------------|------------------------------|---|------------------------------|-------------------------|
| | | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating | Date & Rating in FY2018 | Date & Rating in FY2017 | Date & Rating in FY2016 |
| 1 | Cash Credit | 7.50 | - | June 2018 [ICRA]B(Stable) | - | Mar 2017 [ICRA]B+(Stable) | - |

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 Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|-----------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| NA | Cash Credit | NA | NA | NA | 7.50 | [ICRA]B(Stable) |

Source: Sanction letter from Bank

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