Vaibhav Laxmi Tex Pvt. Ltd.

August 02, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits	9.00	9.00	[ICRA]B+ (Stable); Reaffirmed and Removed from 'Issuer Not Cooperating' Category

*Instrument breakup in Annexure - 1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B+ (pronounced ICRA B plus) for the Rs. 9.00-crore[1] fund based bank facilities of Vaibhav Laxmi Tex Pvt. Ltd. (VLTPL or the company)[2]. The outlook on the long-term rating is 'Stable'.

ICRA has removed its earlier long term rating of [ICRA]B+ (stable) from the 'Issuer Not Cooperating' Category. Rating was moved to 'Issuer Not Cooperating Category' in June 2018.

Rationale

The reaffirmed rating reflects VLTPL's weak financial profile characterized by low net profitability, weak coverage indicators and leveraged capital structure. The ratings also remain constrained by company's high working capital intensity of operation emanating from adverse credit terms with customer and supplier along with relatively higher inventory levels. This has led to tight liquidity position as evident from near to full utilisation of working capital limits. Further, the company's profit margins are vulnerable to price fluctuations in the primary raw material i.e. partially oriented yarn (POY) which is in turn is pegged to crude oil prices. The rating also remain constrained by the company's moderate scale of operations in a highly fragmented and competitive industry structure with low entry barriers, which limits pricing flexibility.

The ratings, however, favourably factor in the promoters' experience in the textile industry as well as the locational advantage enjoyed by the company from its presence in Surat, which is one of the major textile hubs of India.

Outlook: Stable

The Stable outlook reflects ICRA's expectation of gradual growth in revenues supported by extensive experience of the promoters in textile industry which shall enable the management to increase its market share. The outlook may be revised to Positive, if the company is able to significantly improve its operating income (OI) along with an improvement in its return indicators, capital structure and working capital intensity by lowering the debtors receivable period. Conversely, the outlook may be revised to Negative, in case of considerable deterioration in operations or profitability, which can lower its cash accrual position, or further deterioration in its capital structure and working capital cycle, which will deteriorate its financial risk profile of the company.

[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

Extensive experience of the promoters in the textile industry - The Mr. Vinay Nandwani, Mr. Rajesh Nandwani, Mr. Neeraj Khurana and Mr. Amit Khurana are the key directors of the company. They along with their family members are shareholders of the company. The promoters have been in the textile business for over two decades through the group company 'Minakshi Fashion Private Limited' which is engaged in dyeing of grey fabric in Surat. Since FY2012, the promoters are also engaged into manufacturing and dyeing of ATY (Air texturized yarn) through Vaibhav Laxmi Tex Pvt. Ltd. (VLTPL). Extensive experience of the promoters in the textile industry shall guide the company's future growth

Location specific advantage due to presence in Surat, provide an easy access to key raw material - The company's manufacturing unit is located in Surat, which is considered to be a major textile belt in Gujarat. Proximity to the weavers, garment manufactures and textile – processing mills ensures steady supply of raw material and leads to lower transportation cost and agent commissions. The presence in the textile-processing hub offers exposure to a large and strong customer base, which provides an opportunity to increase its market share within the industry

Credit challenges

Modest scale of operations; de-growth in operating income witnessed in FY2018 - Operations of the company commenced during mid FY2012. Over the years, the operations of the company gradually increased, and it achieved a turnover of ~Rs. 35.26 crore in FY2017. However, due to weak domestic demand due to GST related glitches in FY2018, the OI of the company declined by ~19% to Rs. 28.47 crore in FY2018.

Weak financial profile characterized by low profitability, weak coverage indicators and leverage capital structure - Profitability of the company continues to remain low due to limited value addition in texturised yarn manufacturing and dyeing business. The OPM remained moderate and marginally improved from ~7.98% in FY2017 to ~9.75% in FY2018 due to decline in raw material consumption cost. However, NPM remain low at ~1.27% during FY2017 and its further decline to 0.74% in FY2018 due to decline in scale of operation coupled with increase in interest cost and depreciation charges. Return indicators as represented by ROCE declined from ~14.21% in FY2017 to ~12.23% in FY2018. The capital structure of the company continues to remain stretched as represented by gearing level of 2.73 times as on March 31, 2018 due to relatively higher dependency on external funding. The coverage ratios as represented by OPBDITA/Interest and financial charges declined marginally from ~2.34 times in FY2017 to ~1.89 times during FY2018 due to relatively higher interest cost. DSCR of the company continues to remain weak at ~1.10 times as on March 31, 2018. Furthermore, debt protection indicators, as represented by NCA/Total debt and Total Debt/OPBDITA, continued to remain weak at ~10.28% and ~4.24 times, respectively, in FY2018.

Profitability vulnerable to fluctuations in the prices of the key raw material of POY, which is depended on crude prices- Raw material costs form about ~80% of the total income of the company. POY is the key raw material for manufacturing textured yarns. VLTPL procures the same from the domestic market at Surat. Prices of POY are directly linked to the prices of Mono-ethylene Glycol (MEG) and Pure Terephthalic Acid (PTA), which are dependent on crude oil prices. As the prices of crude are volatile in nature, the profitability of the company remains exposed to these fluctuations. Given the highly competitive scenario, the ability to pass on such price fluctuations remains limited.

Stretched liquidity profile as reflected by increase in working capital intensity and high utilization of sanctioned bank limits - Adverse credit terms with customers and suppliers along with relatively higher inventory holding leads to a stretched liquidity position, as represented by almost full utilisation of working capital limits and increase in working capital intensity from ~14% in FY2017 to ~25% in FY2018.

Highly fragmented and competitive industry structure with low entry barriers, which limits pricing flexibility - Texturised yarn is mainly produced in large quantities in China, India, Taiwan, Indonesia and Malaysia before being exported worldwide. This industry is characterised by high levels of competition across the value chain, due to high fragmentation and low entry barriers. This limit the pricing power of players in the sector, which in turn affecting their margins.

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

Links to applicable criteria:

[Corporate Rating Methodology]
[Rating Methodology for Entities in the Indian Textile Industry – Spinning]

About the company:

Incorporated in 2009, Vaibhav Laxmi Tex Private Limited (VLTPL) started operations with the manufacturing of Air-Texturised Yarn (ATY) from Partially oriented yarns (POY) since July 2011. The company also ventured into dyeing of yarns since 2012. The company has its manufacturing facility located in surat. Yarn Manufacturing and dyeing capacity stands at ~220 MT per month.

The company has reported a net profit of Rs. 0.21 crore on an OI of Rs. 28.47 crore during FY2018, as compared to a net loss of Rs. 0.45 crore on an OI of Rs. 35.26 crore in FY2017.

Key financial indicators

	FY2017 Audited	FY2018 Provisional
Operating Income (Rs. crore)	35.26	28.47
PAT (Rs. crore)	0.45	0.21
OPBDIT/ OI (%)	7.98%	9.75%
RoCE (%)	1.27%	0.74%
Total Debt/ TNW (times)	3.68	2.73
Total Debt/ OPBDIT (times)	3.78	4.24
Interest Coverage (times)	2.34	1.89
NWC/ OI (%)	14.05%	24.94%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on 31st March 2018 (Rs Crore)	Current Rating (FY2019) Date & Rating August 2018	Date & Rating June 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 -	Date & Rating in FY2017 Dec-2016	June 2016	Date & Rating in FY2016 April 2015
1	Cash Credit	Long Term	5.50	-	[ICRA]B+ (Stable); Removed from 'Issuer Not Cooperating' category	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	-	[ICRA]B+	Suspended	[ICRA]B+
2	Term Loan	Long Term	3.50	1.19	[ICRA]B+ (Stable); Removed from 'Issuer Not Cooperating' category	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	-	[ICRA]B+	Suspended	[ICRA]B+

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				5.50	[ICRA]B+ (Stable)
NA	Term Loan	February 2015		March 2021	3.50	[ICRA]B+ (Stable)

Source: VLTPL

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About ICRA Limited:

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