December 12, 2019

VSP Industries Private Limited: [ICRA]A+(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term Loan	34.00	[ICRA]A+(Stable); assigned
Total	**34.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of VSP Industries Private Limited (VSP) and VSM Weaves India Private Limited (VSM) (hereafter referred to as the Group) on account of strong operational and financial linkages between these entities.

The assigned rating reflects the established position of the Group as one of the major players in rayon-based fabric manufacturing in India, supplying grey fabric to several leading apparel manufacturers and exporters in India. It has an own installed capacity with 637 air-jet looms as on date and this large capacity has resulted in established relationship with wide set of customers, and operational efficiencies due to economies of scale. The rating positively considers its established customer base and moderate customer concentration, thereby lending stability to revenue. The rating takes comfort from the Group's healthy financial profile characterised by comfortable capital structure and coverage metrics. Also, ICRA expects the Group's profitability to remain at healthy levels, supported by established brand and profile as supplier of quality products. The Group also has an installed windmill capacity of 18.2 MW and solar power capacity of 5 MW, which further augment its operating margin.

The rating factors in the commoditised nature of the product, coupled with the fragmented industry structure resulting in restricted opportunity for growth and limited pricing power. Nonetheless, ICRA notes that the Group's position in the rayon fabric segment and its profile as a nominated/preferred fabric supplier for reputed global brand supports its profitability and growth potential. The rating is constrained by the Group's limited vertical integration, with presence only in weaving segment, high product and supplier concentration. On the other hand, ICRA takes comfort from the fact that its primary suppliers for rayon are its other Group entities and it plans to backward integrate over the medium-term. Apart from these, ICRA notes that the Group's working capital intensity is elevated on account of high receivables.

The Stable outlook on the rating reflects ICRA's opinion that the Group will continue to benefit from its extensive track record of operations, vast experience of the promoters and healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Extensive operating history with established presence textile manufacturing – Established in 1995, the Group has an extensive operating history in the textiles industry. The vast experience of the promoters, spanning over two decades, in the textiles industry has helped in expanding its geographical reach and develop a wide network of customers. At present, it is one of largest players in rayon-based fabric manufacturing in India, supplying grey fabric to several leading apparel manufacturers and exporters in India. The Group had recorded a CAGR of ~10% during the past five years (FY2015-FY2019), supported by capacity expansion and increase in sales volume.

Large weaving capacity with 637 air-jet looms – The Group has an installed capacity of 637 air-jet looms, translating to a production capacity of ~150 million metres per annum (MMPA). It further plans to add 72 air-jet looms by the end of the current fiscal. The capacity is primarily employed in manufacturing of rayon-based grey fabric. Apart from these, it has an established base of job workers with capacity of around 222 looms, which supports its scale of operations.

Healthy profitability supported by considerable windmill and solar power capacity – The Group's operating margin is healthy at 23.2% in FY2019 (as against 18.8% in FY2018), supported by its extensive track record, established brand and long-established relationship with customers, in addition to the Group's profile as a nominated/preferred fabric supplier for reputed global brands. In addition, the Group has installed a windmill capacity of 18.2 MW, which is used entirely for captive consumption and has solar power capacity of 5 MW, which is sold to TANGEDCO.

Healthy financial risk profile characterised by low gearing and comfortable coverage metrics – Aided by low debt levels and high cash accruals in the recent past, the Group has maintained a healthy capital structure over the years with gearing at 0.2 times and TOL/TNW at 0.4 times in FY2019. The company's coverage indicators were strong on the back of healthy margins with interest coverage at 33.1 times and DSCR at 5.4 times in FY2019. Going forward, ICRA expects the Group to sustain its healthy debt protection metrics.

Credit challenges

Highly fragmented industry structure – The weaving industry is highly commoditised and fragmented with significant competition from the several small and medium-sized players. Hence, the scope for expansion in its operating margin is limited and the Group's revenue growth will be susceptible to the global demand-supply and pricing scenario. Any adverse movement in Indian export of apparels/fabric may exert pressure on the Group's revenue and profitability.

Limited vertical integration with high supplier concentration – The Group has limited vertical integration with presence only in the weaving segment. Moreover, with rayon as the key raw material and ~90% of rayon procured from Group entities, it faces high supplier concentration. However, the entities are part of the same Group with few common promoters, which mitigates the risk to some extent. ICRA notes that, going forward, the Group may implement backward integration into yarn manufacturing over the medium-term.

High working capital intensity – The Group's working capital intensity remained high at 34.6% as on March 31, 2019 due to high level of receivables. Nonetheless, a major portion of its receivables has a maturity of less than 90 days.

Liquidity position: Adequate

The Group is expected to have adequate liquidity position supported by healthy cash accruals. While the Group's debt repayment is expected to increase (on account of ongoing capex) and has considerable capex plans for the near-term, its liquidity profile is expected to remain comfortable. The Group's utilisation of external working capital borrowing remains moderate.

Rating sensitivities

Positive triggers – Given the highly fragmented nature of the industry, rating may not be upgraded in the near-term. Nonetheless, ICRA could upgrade VSP's ratings if the Group is able to significantly improve its scale of operation and improve its operational profile through vertical integration, while sustaining its profitability.

Negative triggers – Negative pressure on VSP's ratings could arise if the Group's liquidity position weakens due to support extended to other Group concerns, or if TD/OBITDA deteriorates to more than 2.0 times on account of a decline in profitability or higher-than-expected debt-funded capex.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Financial consolidation and Rating approach Rating Methodology for Entities in the Indian Textiles Industry – Fabric Making
Parent/Group Support	NA
Consolidation/Standalone	ICRA has taken consolidated view of VSP Industries Private Limited and VSM Weaves India Private Limited these two entities are considered to share a common credit profile because of the high degree of business as well as the financial linkages among the wider group of companies (comprising of other entities - Pallava Textiles Private Limited, Sri Cheran Synthetics India Private Limited). Moreover, VSP operates as an extended arm of VSM with separate legal existence for regulatory and operational reasons.

About the company

Incorporated in 2005, the VSP Industries Private Limited is involved in manufacturing of rayon-based greige fabric. The company is a subsidiary of VSM Weaves India Private Limited, which is involved in manufacturing of rayon-based fabric. VSP has an installed capacity of 242 looms and VSM Weaves has 395 looms with a combined manufacturing capacity of ~150 million metres per annum (MMPA). The manufacturing facilities are located in Pallipalayam, Erode.

Until FY2017, VSP was operating as a fabric trading company that purchased grey fabric from third-party sources and sold it to VSM, which sold it to end customers. However, during the past two years (January 2018 – November 2019), the entity has installed 242 looms and is at present involved in manufacturing of grey fabric, but continues to sell the product to VSM. Moreover, until FY2017, VSM had deployed a major portion of its installed capacity (395 looms) for job-work. At present, most of the capacity is used for direct manufacturing and sales of grey fabric.

The Group is one of the largest players in rayon-based fabric manufacturing in India, supplying grey fabric to several leading apparel manufacturers and exporters. The entities are a part of the wider Pallava Group, which includes RMD Weaves Private Limited, Sri Cheran Synthetics India Private Limited, Pallava Textiles Private Limited among others. Sri Cheran and Pallava Textiles are primarily involved in manufacturing of viscose yarn.

Key financial indicators (audited) – Standalone

	FY2018	FY2019
Operating Income (Rs. crore)	133.3	82.9
PAT (Rs. crore)	0.9	5.0
OPBDIT/OI (%)	1%	21%
RoCE (%)	11%	23%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	2.1
Total Debt/OPBDIT (times)	5.6	1.5
Interest Coverage (times)	3.5	8.0
DSCR	3.2	7.6

Key financial indicators (audited) – Consolidated*

	FY2018	FY2019
Operating Income (Rs. crore)	674.7	680.2
PAT (Rs. crore)	69.1	76.8
OPBDIT/OI (%)	19%	23%
RoCE (%)	34%	31%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4
Total Debt/OPBDIT (times)	0.4	0.4
Interest Coverage (times)	29.5	33.1
DSCR	5.8	5.4

**Full consolidation of VSP and VSM*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Rating	FY2019	FY2018	FY2017
					12-Dec-2019	-	-	-
1	Term loan	Long Term	34.0	32.7	[ICRA]A+ (Stable)	-	-	-

*Amount in Rs. crore; * Outstanding as on March 31, 2019*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	Jan-2018	NA	Mar-2025	18.00	[ICRA]A+(Stable)
NA	Term Loan 2	Sep-2018	NA	Mar-2024	16.00	[ICRA]A+(Stable)

Source: VSP Industries Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
VSM Weaves India Private Limited	Parent company that has 75.7% holding in VSP Industries Private Limited	Full Consolidation

Source: VSP Industries Private Limited

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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.

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