

January 21, 2020

## V.P.S. Textiles (India) Private Limited: Long-term rating upgraded to [ICRA]B(Stable)

### Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	3.32	3.32	[ICRA]B (Stable); upgraded from [ICRA]C
Long Term Unallocated Limit	4.68	4.68	[ICRA]B (Stable); upgraded from [ICRA]C
<b>Total</b>	<b>8.00</b>	<b>8.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating upgrade takes into account the scale up and stabilisation of operations in the last two fiscals along with the extensive experience of the promoters in the textile industry.

The rating is, however, constrained by the weak financial risk profile, characterised by small-scale operations, stretched capital structure, weak coverage indicators, high working capital intensity and stretched liquidity profile. The rating also factors in the vulnerability of the company's profitability to adverse fluctuations in raw material prices (cotton and polyester) and regulatory changes, considering the inherently low value-added business and the stiff competition in the yarn industry.

The Stable outlook on the [ICRA]B rating reflects ICRA's opinion that VPS will continue to benefit from the experience of its promoters in the textile industry.

### Key rating drivers

#### Credit strengths

**Experience of promoters in textile industry**— The promoters of VPS have over a decade of experience in the textile industry, resulting in established relationship with customers.

**Stabilisation of operations along with growth in scale** – The company's operations has stabilised along with improvement in scale over the last two fiscal, as evident from the 28% growth in FY2019 to Rs. 15.84 crore and the 27% growth in FY2018 to Rs. 12.41 crore, as compared to Rs. 9.76 crore in FY2017.

#### Credit challenges

**Weak financial risk profile** – While the company's operating income grew to Rs. 15.84 crore in FY2019 from Rs. 12.41 crore in FY2018, the size continues to be small. The capital structure remained leveraged, with the gearing at 1.34 times in FY2019, owing to high debt levels. Consequently, the coverage indicator remained weak, with interest coverage ratio of 2.63 times, TD/OPBITDA of 6.95 times and an NCA/TD of 9% as on March 31, 2019. The working capital intensity remained stretched with NWC/OI at 36% in FY2019 (though improved from 43% in FY2018) due to high inventory and stretched receivable days.

**Profitability remains vulnerable to fluctuations in raw material prices and regulatory changes** – The profit margins are exposed to fluctuations in raw material prices (cotton and polyester), which depend on various factors such as seasonality, climatic conditions, global demand and supply situation, and export policy. Further, it is also exposed to the regulatory risks with regard to the MSP set by the Government. Moreover, high inventory stocking exposes it to inventory holding risk.

**Intense competition and fragmented industry structure** - The spinning industry is highly fragmented with presence of numerous small to mid-sized players. Thus, the company faces stiff competition, which limits its bargaining power and exerts pressure on its margins.

### Liquidity position: Stretched

The overall liquidity situation is expected to remain tight because of the high working capital requirements owing to elongated receivables and low cash accruals, absence of cushion in the cash credit limits and expected debt-funded capex. Hence, timely support from promoters through equity infusion/ unsecured loans remains crucial in case of any cash flow mismatch.

### Rating sensitivities

**Positive triggers-** ICRA could upgrade VPS’s rating if increase in scale of operations and profitability leads to higher-than-expected cash accruals on a sustainable basis, which along with improvement in working capital cycle comforts the liquidity position.

**Negative triggers-** Negative pressure on VPS’s rating could arise if there is a substantial decline in revenues and profitability, leading to lower-than-expected cash accruals. Moreover, any further stretch in the coverage indicators and working capital cycle or any major debt-funded capex along with any sizable outflow towards group entities could also trigger a negative rating.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Textile Industry - Spinning</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity

### About the company:

V.P.S. Textiles (India) Private Limited (VPS) was incorporated in 2006 and manufactures cotton polyester yarn of the fine count range of 60’s. Its spinning mill is in R. Vadipatti in Tamil Nadu and has a spindle capacity of 11,636 spindles. It is a closely-held company promoted by Mr. C. Veluswamy, who is also the promoter of Shri Vasanthraj Textiles Private Limited, which is into same line of business.

VPS reported a profit after tax (PAT) of Rs. 0.46 crore on an operating income (OI) of Rs. 15.84 crore in FY2019, compared to a profit after tax (PAT) of Rs. 0.02 crore on an OI of Rs. 12.41 crore in FY2018.

### Key financial indicators (audited):

	FY2018	FY2019
Operating Income (Rs. crore)	12.41	15.84
PAT (Rs. crore)	0.02	0.46
OPBDIT/OI (%)	5.2%	6.3%
RoCE (%)	4.4%	7.1%
Total Debt/TNW (times)	1.5	1.3
Total Debt/OPBDIT (times)	10.6	7.0
Interest coverage (times)	1.3	2.6

### Status of non-cooperation with previous CRA: Not Applicable

### Any other information: None

### Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating		Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
				21-Jan-20	28-Jun-19			
1 Cash Credit	Long Term	3.00	3.03*	[ICRA]B (Stable)	[ICRA]C	-	[ICRA]D	[ICRA]D
2 Term Loan	Long Term	0.32	0.17*	[ICRA]B (Stable)	[ICRA]C	-	[ICRA]D	[ICRA]D
3 Unallocated Limits	Long Term	4.68	NA	[ICRA]B (Stable)	[ICRA]C	-	[ICRA]D	[ICRA]D
<b>Total</b>		<b>8.00</b>						

\* 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](http://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
N.A.	Cash Credit	-	13%	-	3.00	[ICRA]B (Stable)
N.A.	Term Loan	FY2016	13%	FY2023	0.32	[ICRA]B (Stable)
N.A.	Unallocated Limits	-	-	-	4.68	[ICRA]B (Stable)

Source: V.P.S. Textiles (India) Private Limited

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