

Vippy Spin Pro Limited

April 01, 2019

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	0.01	CARE BBB+ ; Stable (Triple B Plus; Outlook:Stable)	Reaffirmed
Long-term/ Short term Bank Facilities	19.00	CARE BBB+ ; Stable/ CARE A2 (Triple B Plus; Outlook:Stable/ A Two)	Reaffirmed
Total	19.01 (Rupees Nineteen crore and One lakhs only)		

Details of facilities in Annexure-1

Detailed Rationale & Key rating Drivers

The ratings assigned to the bank facilities of Vippy Spinpro Limited (VSL) continue to take comfort from the experience of the promoters in the textile industry with established track record of operations and comfortable solvency and liquidity position. The ratings, further, continue to derive strength from improvement in the scale of operations.

The ratings, however, continue to remain constrained on account of moderate profitability margins with vulnerability of operating margins to volatility in the cotton prices, inherent cyclicity associated with the textile industry and impact of government regulations and climatic condition.

The ability of VSL to increase its scale of operations with improvement/maintaining of its profitability and better management of working capital would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established track record of operations

Promoters of VSL are engaged into this business since 1992 and over the period they have developed strong operational base. VSL specializes in manufacturing of slub yarn, multi-count yarn, multi-twist yarns, waxed yarn and is one of the few companies in the organized sector to manufacture open-ended yarn on an exclusive basis.

Continuous growth in scale of operation

The scale of operations of VSL has witnessed continuous growth during past three financial years ended FY18 and grew at a Compounded Annual Growth Rate (CAGR) of 9.64% in the same time period owing to growing sales realization of cotton yarn. During FY18, Total Operating Income (TOI) of VSL has improved by 7.51% over FY17 mainly on account of increase in average sales realisation per Metric Tonne (MT) of cotton yarn as well as waste and other scraps which offset to decline in sales volume of cotton yarn by 6.01% over FY17 owing to lower market demand.

During 9MFY19, the company has achieved TOI of Rs.85.50 crore as against Rs.79.96 crore in 9MFY18.

Comfortable capital structure and debt coverage indicators

The capital structure of the company continues to remain comfortable marked by debt equity ratio and overall gearing ratio of 0.09 times and 0.49 times as on March 31, 2018 as against 0.04 times and 0.47 times as on March 31, 2017. Further, the debt service coverage indicators of the company stood comfortable marked by total debt to GCA at 3.05 times as on March 31, 2018 and comfortable interest coverage of 7.71 times in FY18.

Comfortable liquidity position

Operations of cotton business are seasonal in nature which led to fluctuating average utilization of working capital limit i.e. less than 10% in non-peak season (August to January) while 50-60% in peak season (February to July). The working capital cycle of the company continued to remain elongated at 127 days during FY18 as against 114 days in FY17 owing to high inventory holding period which also led to comfortable current ratio at 2.22 times while quick ratio stood at unity level as on March 31, 2018.

Key Rating Weaknesses

Improvement in operating profitability margins albeit stood moderate

Profitability margins of VSL continued to remain moderate marked by PBILDT margin and PAT margins of 7.03 % and 3.22% respectively in FY18. PBILDT margin has improved by 51 bps in FY18 over FY17 mainly on account of higher increase

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

in sales realization as against increase in raw material cost. However, GCA level has improved by 15.25% over previous year and it registered Rs.5.82 crore in FY18.

During 9MFY19, PBILDT and PAT margin of 6.94% and 3.20% respectively as against 6.29% and 2.58% respectively during 9MFY18.

Susceptibility of operating margins to volatility in cotton prices and inherent cyclicity associated with the textile industry and impact of government regulations

Prices of raw cotton are volatile in nature and depend upon factors like area under production, yield for the year, international demand-supply scenario, inventory carry forward from the previous year, along with setting of export quota and minimum support price (MSP) by the government. A slowdown in the garment industry is one of the biggest risk faced by cotton spinners today especially on account of shift in bulk of garment production to Bangladesh and Vietnam to meet the global demand. Going ahead, the prices of cotton and cotton yarn are likely to be largely determined by the Chinese cotton policy, trend in the currency movement and yield of raw cotton.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial Ratios - Non-Financial Sector](#)

About the Company

Incorporated in April 1992, VSL is a public limited company promoted by the Mutha family based in Ujjain. VSL manufactures open-ended cotton yarn through rotor spinning technology at its facility located in Dewas near Indore, Madhya Pradesh (MP). Presently, VSL has an installed capacity of 3,168 rotors or 9,000 Metric Tonne Per Annum (MTPA) as on March 31, 2018 for manufacturing of cotton yarn for counts ranging from 4s to 32s. VSL specializes in manufacturing of slub yarn, multi-count yarn, multi-twist yarns and waxed yarn which finds its applications in industrial fabrics as well as clothing fabric and denim. It markets its product in domestic as well as export markets. Further, the company set up a 7 Megawatt (MW) solar power plant at village Nagda, Distt. Dewas (Madhya Pradesh) for captive consumption.

(Rs. in crore)

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	99.03	106.47
PBILDT	6.45	7.49
PAT	3.32	3.43
Overall gearing (times)	0.47	0.49
Interest coverage (times)	17.71	7.71

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	1.00	CARE BBB+; Stable / CARE A2
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	18.00	CARE BBB+; Stable / CARE A2
Fund-based - LT-Term Loan	-	-	March 2019	0.01	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	1.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-18)	1)CARE BBB+; Stable / CARE A2 (20-Mar-17)	1)CARE BBB+ / CARE A2 (04-Feb-16)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	18.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-18)	1)CARE BBB+; Stable / CARE A2 (20-Mar-17)	1)CARE BBB+ / CARE A2 (04-Feb-16)
3.	Fund-based - LT-Term Loan	LT	0.01	CARE BBB+; Stable	-	1)CARE BBB+; Stable (30-Mar-18)	1)CARE BBB+; Stable (20-Mar-17)	1)CARE BBB+ (04-Feb-16)

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