

## Vippy Spin Pro Limited

March 09, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term / Short Term Bank Facilities	22.30	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
<b>Total Bank Facilities</b>	<b>22.30</b> <b>(Rs. Twenty-Two Crore and Thirty Lakh Only)</b>		

*Details of facilities in Annexure -1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vippy Spin Pro Limited (VSL) continue to derive strength from its experienced management with long track record of operations and established customer base. The ratings, further, continue to derive strength from moderate scale of operations and profitability, comfortable capital structure and debt coverage indicators & adequate liquidity.

The ratings, however, continue to remain constrained on account of its susceptibility of VSL's profitability to volatility in raw cotton prices and its presence in a competitive and cyclical textile industry.

### Rating Sensitivities

#### Positive factors

- Sustained increase in total operating income (TOI) of above Rs.300 crore
- Improvement of profitability margins with reported PBILDT margin ranging between 10 - 13% on sustained basis

#### Negative factors

- Major decline in scale of operations on sustained basis
- Any changes in government regulation which adversely impacts the operations of the company
- Any debt-funded project undertaken by the company which results in deterioration of capital structure above 0.75 times

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Experienced management with long track record of operations**

Promoters of VSL are engaged into spinning business since 1992 and over the period of time, the management has developed a strong operational base. Overall affairs of the company are headed by Mr. Piyush Mutha, Managing Director in the company who has over 26 years of experience in the industry. He is assisted by his brother, Mr Praneet Mutha who also has more than two decades of experience in this industry. Further, the Mutha family has also promoted Vippy Industries Limited (VIL-rated CARE A-; Stable /CARE A2+) which is engaged in the extraction of soya oil from soya seeds, refining of crude soya oil and manufacturing of value-added soya-based products since 1973. With promoter's experience across multiple industries and focus on adherence to quality standards, VSL has established a strong customer base. During FY20, top five customers constituted approximately ~54% of VSL's TOI (FY19: ~53%).

##### **Moderate scale of operations and profitability**

VSL operates on a moderate base and reported TOI of Rs.111.17 crore during FY20 (FY19: Rs.113.85 crore). While sales volume remained stable, marginal decline of ~2% in TOI was primarily on account of decrease in sales realisation per Metric Tonne (MT) of cotton yarn during FY20. Capacity utilisation continued to remain healthy at 97% during FY20 (FY19: 97%).

PBILDT margin declined by 166 bps y-o-y to 6.32% during FY20 on account of increase in raw material cost and increase in other manufacturing expenses. PAT margin, however, declined marginally by 52 bps y-o-y to 3.41% during FY20 on account of reduction in interest and depreciation cost.

Continuation of nationwide lockdown and cessation of manufacturing operations in Q1FY21 (refers to the period April 1 to June 30) impacted VSL's 9MFY21 (refers to the period April 1 to December 31) as reflected by TOI of Rs.56.48 crore (9MFY20: Rs.85.90 crore) with PBILDT margin and PAT margin of 5.31% (9MFY20:6.34%) and 2.07% (9MFY20: 3%) respectively.

##### **Comfortable capital structure and debt coverage indicators**

VSL's overall gearing improved to 0.19 times as on March 31, 2020 (PY end: 0.50 times) on account of accretion to reserves and lower total debt as on balance sheet date. Debt coverage indicators also improved marked by total debt to

GCA (TDGCA) of 1.64 years during FY20 (3.00 years during FY19). Despite reduction in PBILDT, Interest coverage ratio remained comfortable and in line with previous year at 8.82 times during FY20 (8.81 times during FY19).

### Key Rating Weaknesses

#### **Susceptibility of profit margins to volatility in raw cotton prices**

Raw cotton (raw material) and cotton yarn (finished product) prices have been volatile in nature and depends upon factors like area under production, yield for the year, international demand supply scenario, inventory carried forward from the previous year, export quota and minimum support price (MSP) decided by the government. Consequently, profitability of the company remains vulnerable to the volatility in the spread between cotton and cotton yarn.

#### **Presence in a competitive and cyclical textile industry**

VSL operates in a competitive and fragmented textile spinning industry characterized by presence of a large number of medium and small-scale unorganized players having a limited bargaining power. Furthermore, textile is a cyclical industry and closely follows the macroeconomic business cycles. Any adverse change in macroeconomic environment has a direct impact on the domestic textile industry.

### Liquidity: Adequate

VSL has adequate liquidity marked by low utilisation of working capital limits, comfortable GCA & cash flow from operations (CFO) and low debt repayment obligations.

Average utilisation of working capital limits remained low at ~11% for the past 12 month ended January 2021. As against GCA and CFO of Rs.5.20 crore and Rs.11.82 crore respectively in FY20, scheduled repayments of long-term debt remains low at just Rs.0.72 crore during FY21.

However, operating cycle of VSL elongated to 151 days during FY20 (139 days during FY19) on account of elongation in receivables days. Inventory level of raw cotton also remains high as on the balance sheet date since its procurement is seasonal in nature. Consequently, current ratio remains high at 3.36 times as on March 31, 2020 (2.11 times as on March 31, 2019). VSL had free cash and bank balance remained at Rs.0.16 crore as on March 31, 2020.

CARE takes cognizance of the impact of COVID pandemic on business operations of firm. The operations of VSL were closed from March 20, 2020 to May 09, 2020 in the view of nationwide lockdown declared by the Government on account of COVID pandemic. The company has not availed moratorium benefit on debt repayment for its bank facilities available under RBI's COVID relief program during March-August 2020.

**Analytical approach:** Standalone

### Applicable Criteria

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

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

[Liquidity Analysis of Non-Financial Sector entities](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology - Cotton Textile Manufacturing](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Factoring Linkages in rating](#)

### About the Company

Incorporated in April 1992, VSL is a public limited company promoted by 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, 2020 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 has set up a 6 Megawatt (MW) of wind mill and 1 MW of solar power plant for captive consumption.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	113.85	111.18
PBILDT	9.09	7.03
PAT	4.47	3.79
Overall gearing (times)	0.50	0.19
Interest coverage (times)	8.81	8.82

A: Audited

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

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**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	-	-	-	0.30	CARE BBB+; Stable / CARE A2
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	22.00	CARE BBB+; Stable / CARE A2

**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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	0.30	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (27-May-20) 2)CARE BBB+; Stable / CARE A2 (01-Apr-19)	1)CARE BBB+; Stable / CARE A2 (23-Mar-20) 2)CARE BBB+; Stable / CARE A2 (01-Apr-19)	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-18)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	22.00	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (27-May-20) 2)CARE BBB+; Stable / CARE A2 (01-Apr-19)	1)CARE BBB+; Stable / CARE A2 (23-Mar-20) 2)CARE BBB+; Stable / CARE A2 (01-Apr-19)	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-18)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (23-Mar-20) 2)CARE BBB+; Stable (01-Apr-19)	-	1)CARE BBB+; Stable (30-Mar-18)

**Annexure 3: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-CC/Packing Credit	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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