Vippy Spin Pro Limited

March 03, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	22.30	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
Total Bank Facilities	**22.30 (Rs. Twenty-Two Crore and Thirty Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings 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, continue to factor in comfortable capital structure and debt coverage indicators & adequate liquidity; albeit expected to moderate going ahead due to large debt funded ongoing capacity expansion. The ratings, however, continue to remain constrained on account of moderate scale of operation, 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 - Factors that could lead to positive rating action/upgrade:

- ✓ 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- Factors that could lead to negative rating action/downgrade:

- × Major decline in scale of operations along with decline in PBILDT margin below 8% on sustained basis
- × Any changes in government regulation which adversely impacts the operations of the company
- × Any cost and time over run in respect of ongoing expansion plan resulting into weakening credit profile of the company

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 sin.ce 1973. With promoter's experience across multiple industries and focus on adherence to quality standards, VSL has established a strong customer base.

Comfortable capital structure and debt coverage indicators albeit expected some moderation going forward

VSL's overall gearing improved to 0.07 times as on March 31, 2021 (vis-à-vis 0.19 times as on March 31, 2020) 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 0.59 years during FY21 (1.64 years during FY20). Due reduction in interest expenses in FY21, Interest coverage ratio remained comfortable and remained at 22.90 times during FY21 (8.82 times during FY20).

The company is presently expanding its cotton yarn manufacturing capacity from 9000 MT to 12500 MT at an estimated cost of Rs.50 crore with a debt of Rs.33.5 crore and internal accruals of Rs.16.5 crore. Furthermore, the company has been sanctioned secured term loan of Rs.33.50 crore from HDFC bank on July 26, 2021, for the aforesaid expansion.The commercial production of the new plant is expected to start by May 2022. Given the large sized debt funded capex (little over its 100% of FY21 networth) it is exposed to project risk. In view of the above term loan, the overall gearing and debt coverage indicators is expected to be moderate going ahead. Hence timely implementation of the project without cost and time over run remains critical from credit perspective and a key monitorable.

Key Rating Weaknesses

Moderate scale of operations and profitability

During FY21, ToI of the company declined by 21.02% to Rs.87.81 crore (vis-à-vis Rs.118.18 crore in FY20) primarily on account of impact of lock-down. Capacity utilisation continued to remain healthy at 90% during FY21 (vis-à-vis 97% iFY20. PBILDT margin improved by 184 bps y-o-y to 8.16% during FY21 (vis-à-vis 6.32% in FY20) on account of improved realisation of its finished product led by improved demand since easing of lock down. Furthermore, PAT margin improved by 111 bps y-o-y to 4.52% in FY21 (vis-à-vis 3.41% during FY20) on account of reduction in interest and depreciation cost.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Owing to relaxation in nationwide lockdown and resumption of manufacturing operations in Q1FY22(refers to the period April 1 to June 30) coupled with strong improvement in demand and resultant increase in realisation of cotton yarn prices, VSL's TOI during 9MFY22 (refers to the period April 1 to December 31) improved to Rs.103.82 crore as against 9MFY21: Rs.56.48 crore and the PBILDT margin and PAT margin improved to 12.56% (9MFY21:5.31%) and 8.49% (9MFY21: 2.07%) respectively.

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 completive 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 ~2% for the past 12 month ended December 2021. As against GCA and CFO of Rs.5.49 crore and Rs.5.51 crore respectively in FY21, scheduled repayments of long-term debt remains low at just Rs.0.72 crore during FY21 and Rs.0.72 crore in FY22. However, operating cycle of VSL elongated to 188 days during FY21 (151 days during FY20) on account of elongation in inventory and 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 5.41 times as on March 31, 2021 (3.66 times as on March 31, 2020). VSL had free cash and bank balance remained at Rs.0.16 crore as on March 31, 2021.
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
Rating Methodology - Manufacturing Companies
Rating Methodology – Cotton Textile Manufacturing
Liquidity analysis of Non-financial sector entities
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments

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, 2021 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)	31-03-2020 (A)	31-03-2021 (A)	Q9MFY22 (UA)
Total operating income	111.18	87.81	103.82
PBILDT	7.03	7.16	13.04
PAT	3.79	3.97	11.07
Overall gearing (times)	0.19	0.07	0.38
Interest coverage (times)	8.82	22.90	65.38

A: Audited; UA: Un-Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

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

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various facilities rated for this company: Annexure 4

Annexure-1: Details of Facilities

Name of the Facilities	ISIN	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 Guarantee		-	-	-	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 Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	0.30	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (09-Mar-21) 2)CARE BBB+; Stable / CARE A2 (27-May-20)	1)CARE BBB+; Stable / CARE A2 (23-Mar-20) 2)CARE BBB+; Stable / CARE A2 (01-Apr-19)	-
2	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	22.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (09-Mar-21) 2)CARE BBB+; Stable / CARE A2 (27-May-20)	1)CARE BBB+; Stable / CARE A2 (23-Mar-20) 2)CARE BBB+; Stable / CARE A2 (01-Apr-19)	-
3	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (23-Mar-20) 2)CARE BBB+; Stable (01-Apr-19)	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated facilities

Name of the Facilities	Detailed explanation
A. Financial covenants	**As indicated in HDFC sanction letter**
(i) Cash Credit	(i) DSRA of 2 EMI will be taken as upfront (ii) WC limits upto Rs.5.00 crore will be restricted till capex start earning profits (iii) DSCR to be maintained minimum of 1.1 times, TOL/TNW should not be more than 1.5 times (iv) If company received subsidy/grant and the same should be adjusted against principal amount (v) Minimum DSCR of 1.1 times should be maintained at all times (vi) TOL/TNW <=1.5 times Net Fixed Asset / Term Debt >= 2.0 times (vii) Term Debt / Net Cash Accruals should not exceed 1.5 times (viii) Disbursements will be done only to vendors (ix) Company/Promoter should undertake that any losses to be funded through additional equity from promoters
B. Non-financial covenants	
(i) Bank Guarantee	Tenor upto 5 years

Annexure 4: Complexity level of various facilities rated for this company

Sr. No	Name of facilities	Complexity level
1	Fund-based - LT/ ST-CC/Packing Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
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