

## V-Star Creations Private Limited

August 11, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	41.56	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Short-term bank facilities	1.23	CARE A3+ (A Three Plus)	Assigned
<b>Total bank facilities</b>	<b>42.79</b> <b>(₹ Forty-two crore and seventy-nine lakh only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of V-Star Creations Private Limited (VCPL) derive strength from the vast experience of the promoters in the business, the long track record of the company in the innerwear segment with an established brand, and the comfortable capital structure.

The ratings are, however, constrained by the moderate scale of operations in a highly competitive segment, sales confined largely to a single state, and the working capital-intensive nature of operations, marked by high inventory holding.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Ability of the company to scale up operations above ₹180 crore while maintaining a profit before interest, lease rentals, depreciation and taxation (PBILDT) margin over 10% on a sustained basis.
- Ability to geographically diversify the operations.

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Any significant delay or cost overrun in the completion of the ongoing capex.
- Increase in the leverage levels, with overall gearing ratio exceeding 1.5x.

### Detailed description of key rating drivers

#### Key rating strengths

**Vast experience of the promoters belonging to the V-Guard group:** VCPL was promoted by Sheela Grace Kochouseph, wife of Kochouseph Chittilappilly, who promoted V-Guard Industries Limited (VIL). VIL is a leading manufacturer of voltage stabilisers, digital UPS, inverter and inverter batteries, electric water heaters, solar water heaters, domestic pumps, agricultural pumps, etc. The day-to-day operations of VIL are overseen by Kochouseph Chittilappilly's son, Mithun Chittilappilly Kochouseph, who is the Managing Director. Mithun is also a Director of VCPL.

**Established track record of operations:** VCPL is primarily into the manufacturing and retailing of innerwear and outerwear garments since 1996. The company started as a partnership firm in 1995, engaged in the manufacturing of ready-to-stitch ethnic wear. Since 1996, the company manufactures innerwear and outerwear catering to women, men, and kids. The company relies on outsourcing its manufacturing requirements, which meets around 70% of the entire production requirements.

**Established brand with multiple marketing channels:** VCPL has created a strong presence in Kerala for more than two decades under the established brand name 'V-Star'. The company's product portfolio consists of innerwear for all genders and the share of women's wear in the overall mix has been steadily increasing over the years. There are 22 exclusive brand outlets (EBOs), including 17 franchises and around 70 distributors, servicing over 5,000 multi-brand outlets (MBOs) across South India and a pan-India presence through leading e-commerce platforms.

**Comfortable capital structure and debt coverage metrics:** VCPL's overall gearing stood comfortable, at 1.11x as on March 31, 2022 (PY: 0.83x). The interest coverage ratio improved from 2.17x in FY21 to 4.32x in FY22. The total debt (TD) to gross cash accruals (GCA) also improved to 6.3x as on March 31, 2022 (PY: 10.7x).

#### Key rating weaknesses

**Moderate scale of operations, albeit improved during FY22:** The operating income declined to ₹92 crore in FY21 from ₹109 crore in FY20 due to COVID disruptions. However, it had increased to ₹125 crore in FY22 at a growth rate of 35% due to

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

the surge in demand post the release of the COVID lockdown restrictions. VCPL reported net losses in FY20 due to higher promotional expenses.

**Exposure to volatility in raw material prices and forex rates:** VCPL purchases raw materials such as fabric, elastic, and yarn and primarily outsources the manufacturing process. The prices of cotton fabric, the key raw material, are dependent on the prices of cotton and yarn, which are governed by various factors such as the area under cultivation, monsoon, export quota by the government, and international demand-supply situation, among others. Cotton fabric being the key raw material, the ability of the company to absorb the variations in the raw material prices and pass it to the customers is key for maintaining the profitability level.

**Geographically concentrated revenue profile:** The sale of products is geographically concentrated in the regions of Kerala, which contributes around 80% of the total operating income (TOI), thereby exposing the business to risks related to state-specific policy regulations or adverse macro-economic developments affecting consumer spending.

#### **Liquidity:** Adequate

The liquidity of the company is adequate, characterised by a sufficient cushion in accruals against the repayment obligations and a moderate cash balance of ₹0.10 crore (PY: ₹0.01 crore) as on March 31, 2022. The inventory holding increased to 173 days in FY22 from 114 days in FY20, as the company purchased and held more raw material stock at the end of FY22 in anticipation of increasing prices and also due to a shortage of quality raw materials. VCPL has been sanctioned with ₹30.10 crore of working capital limits and the average utilisation of the same stood at 79.25% for the last 12 months ended May 31, 2022. The company has availed COVID emergency loans of ₹6.44 crore in August 2020 for working capital requirements

#### **Industry outlook**

The Indian apparel exports, on a cumulative basis, declined by 21.1% y-o-y to US\$ 12.2 billion during FY21, led by COVID disruptions. The innerwear category is one of the high-growth categories in the apparel market and promises growth and innovation. The product categories in women's innerwear include brassieres, camisoles, panties, tees, nighties, shorts, etc. The market has historically been highly fragmented, competitive, and unorganised, dominated by numerous small-scale players that cater to around 60-65% of the total demand.

#### **Analytical approach:** Standalone

#### **Applicable criteria**

[Policy on Default Recognition](#)

[Financial ratios – Non-financial sector](#)

[Liquidity analysis of non-financial sector entities](#)

[Rating outlook and credit watch](#)

[Short-term instruments](#)

[Cotton textile](#)

[Manufacturing companies](#)

[Retail](#)

#### **About the company**

VCPL was established in 1995, in Kerala, as a partnership firm and later converted into a private limited in 1996. VCPL is primarily into the manufacturing and retailing of innerwear and lifestyle garments for men, women, and kids under the brand name 'V-Star' through exclusive brand outlets and multi-brand outlets primarily in Kerala.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	June 30, 2022 (P)
TOI	92.51	125.08	NA
PBILDT	5.28	13.21	NA
PAT	1.70	7.25	NA
Overall gearing (times)	0.83	1.11	NA
Interest coverage (times)	2.17	4.32	NA

A: Audited; P: Provisional; NA: Not available.

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

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated for this company:** Annexure-4

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long term		-	-	September 2027	12.56	CARE BBB; Stable
Fund-based - LT-Cash credit		-	-	-	29.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit		-	-	-	0.04	CARE A3+
Non-fund-based - ST-Bank guarantee		-	-	-	0.09	CARE A3+
Fund-based - ST-Working capital limits		-	-	-	1.10	CARE A3+

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based-Long term	LT	12.56	CARE BBB; Stable	-	-	-	-
2.	Fund-based - LT-Cash credit	LT	29.00	CARE BBB; Stable	-	-	-	-
3.	Non-fund-based - ST-Letter of credit	ST	0.04	CARE A3+	-	-	-	-
4.	Non-fund-based - ST-Bank guarantee	ST	0.09	CARE A3+	-	-	-	-
5.	Fund-based - ST-Working capital limits	ST	1.10	CARE A3+	-	-	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities**

Not applicable

**Annexure-4: Complexity level of the various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1.	Fund-based - LT-Cash credit	Simple
2.	Fund-based-Long term	Simple
3.	Fund-based-ST-Working capital limits	Simple
4.	Non-fund-based-ST-Bank guarantee	Simple
5.	Non-fund-based - ST-Letter of credit	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 instruments:** CARE Ratings 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](mailto:care@careedge.in) for any clarifications.

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