

Vippy Spin Pro Limited

February 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	22.30	CARE BBB+; Stable / CARE A2	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Vippy Spin Pro Limited (VSL) continue to derive strength from its experienced management with a long-standing track record of operations and established customer base. The rating, continues to factor its comfortable financial risk profile and adequate liquidity. The rating also takes cognizance of improvement in growth in VSL's scale of operations, albeit on a moderate base and improvement in profitability in FY22 (FY refers to the period from April 01 to March 31) on back of healthy growth in both sales volume as well as average sales realisation.

The ratings, however, continue to be constrained on account of susceptibility of its profitability to volatility in raw cotton prices and its presence in a competitive and cyclical textile industry. The ratings are also constrained on account of implementation and scaling up risk associated on-going debt funded capex.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume-driven growth in scale of operations above Rs.300 crore while maintaining PBILDT margin above 12% on a sustained basis.
- Improvement in liquidity and gross current assets days below 120 days.

Negative factors

- Significant decline in scale of operations along with dip in PBILDT margin below 8%.
- Any changes in government regulation which adversely impacts the operations of the company.
- Increase in working capital intensity leading to deterioration in capital structure and liquidity.

Analytical approach: Standalone

Key strengths

Experienced management with long-standing track of operations: Promoters of VSL are engaged in cotton spinning business since 1992 and over the period with the management's focus on adherence to quality standards, VSL has developed a strong operational base and reputed customer base. Overall affairs of the company are headed by Mr. Piyush Mutha, Managing Director and assisted by his brother, Mr. Praneet Mutha, have vast experience in textile industry. Furthermore, 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.

Comfortable financial risk profile: VSL's capital structure remained comfortable marked by below unity overall gearing of 0.23x as on FY22 end (0.07x as on FY21 end); marginal deterioration in gearing was on account of comparatively higher utilisation of working capital limits as on the balance sheet date.

Debt coverage indicators remained healthy marked by total debt to Gross cash Accruals (TDGCA) of 1.03 years in FY22 (0.59 years in FY21). Furthermore, with improvement in profitability and low interest expense, VSL's interest coverage improved significantly to 65.23x in FY22 (22.15x in FY21).

As per provisional results for 9MFY23, VSL's overall gearing stood comfortable at 0.20x and PBILDT interest coverage remained healthy of 89.69x (49.60x in 9MFY22). CARE Ratings Limited (CARE) expects VSL's financial risk profile to moderate in FY23 owing to availment of term debt of Rs.33.50 crore (Rs.14 crore o/s till December 31, 2022) towards on-going capex for capacity enhancement.

Industry outlook: Post first wave of Covid-19 pandemic, cotton spinners had gained momentum supported by healthy export demand. With availability of low cotton inventory and improvement in operating efficiency, majority of cotton spinners reported all time high revenue and profitability during FY22. Owing to weak demand scenario of cotton yarn primarily in the export market coupled with relatively high cotton prices in the domestic market, the spread between cotton-cotton yarn reduced significantly in 9MFY23 as compared to FY22 which in turn adversely impacted the operating profitability of Indian cotton spinners. India's cotton yarn export in terms of volume stood at 366 million (mn) kg during Apr'22-Nov'22 as compared to 936 mn kg during April'21 to Nov'21 (lower by 60% on a y-o-y basis) and 647 mn kg during April'20-Nov'20 (lower by ~43% on a yo-y basis). With arrival of

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

new cotton crop, the prices of cotton in the domestic market corrected significantly and currently, trading in range of 60,000-65,000 per candy. Further, the prices of cotton are expected to correct by another 5-10% in near to medium term. After witnessing a very subdued demand in 9MFY23, the demand is likely to see improvement from Q4FY23. On a long-term basis, Indian cotton spinners are expected to maintain stable demand growth and profitability supported by increasing urbanization, rising disposable income, China+1 strategy adopted by the major global retail players along with various incentives from government like Refund of Duties and Taxes on Exported Products (RoDTEP), Rebate of State and Central Taxes and Levies (RoSCTL) and Mega Integrated Textile Region and Apparel (PM MITRA) Parks etc.

Key weaknesses

Moderate scale of operations; albeit improved profitability:

VSL registered volume-backed growth in TOI by around 59% y-o-y to Rs.139 crore (Rs.88 crore in FY21), coupled with increase in average sale realisation of cotton yarn. Recovery in demand for its products post relaxation of COVID-19 restrictions resulted in healthy capacity utilisation levels and growth in its scale of operations. During FY22, capacity utilisation remained healthy at 95% (76% in FY21).

During FY22, PBILDT and PAT margin witnessed improvement by around 418 bps to 12.09% (7.91% in FY21) and 420 bps to 8.73% (4.53% in FY21) respectively on account of increase in spread between cotton and cotton yarn prices due to steep increase in cotton yarn prices and low-cost inventory on hand during FY22. VSL's Gross cash accruals (GCA) increased to Rs.13.45 crore in FY22 (Rs.5.49 crore in FY21).

The growth momentum continued during H1FY23 marked by growth in TOI along with improvement in its PBILDT margin on account of steady increase in sales realisation till June 2022. However, Q3FY23 marked reduction in production as well as moderation in cotton yarn prices resulting in dip in profitability. During 9MFY23 (UA), VSL achieved TOI of Rs.109 crore (Rs.103 crore in 9MFY22) with PBILDT margin of 13.15% (12.02% in 9MFY22). CARE expects VSL's scale of operations to grow from FY24 onwards on commercialisation of enhanced production capacity with marginal dip in profitability.

Implementation and scalability risk associated with on-going brownfield debt-funded capex: VSL is implementing a debt-funded capex for expansion of its existing cotton yarn manufacturing capacity by another 3500 Metric Tonne Per Annum (MTPA) at a total cost of Rs.50 crore, to be funded by debt of Rs.33.50 crore and balance by internal accruals. Till December 31, 2022, VSL had incurred around Rs.37 crore, funded by term debt of Rs.14 crore and balance through internal cash accruals. As against scheduled completion of the project in September 2022, there has been a time overrun of around six months due to delay on part of the machinery vendor. VSL expects commencement of commercial operations from the enhanced capacities from Q1FY24. Considering large-size debt-funded capex, its completion within envisaged cost and time parameters while realization of envisaged benefit therefrom shall remain crucial from credit perspective.

Intense competition with susceptibility of profitability to volatility in raw material prices: VSL's basic raw material i.e. raw cotton accounts for around 80-85% of the total cost of production. The prices of raw cotton are volatile in nature and depends upon factors like area under production, yield for the year, vagaries of the monsoon, international demand-supply scenario, macroeconomic environment globally, inventory carry forward from the previous year and minimum support price (MSP) decided by the government. Moreover, fragmented nature of the industry, intense competition and low product differentiation contribute to low bargaining power of yarn manufacturers.

Liquidity: Adequate

VSL's liquidity remained adequate marked by low utilisation of working capital limits and comfortable GCA against scheduled long-term debt repayment obligations. The average utilisation of fund-based working capital limits remained low at around 18% during trailing 12 months ended on November 30, 2022. Furthermore, VSL has sufficient cushion in form of GCA of Rs.13.45 crore as against scheduled repayments of long-term debt of mere Rs.6-7 crore (FY24-FY25). VSL reported negative CFO of Rs.1.64 crore during FY22 due to increased working capital requirement on account of scaling-up of operations.

During FY22, VSL's operating cycle improved to 145 days (188 days in FY21); albeit remained elongated on account on maintaining high inventory of raw cotton as on the balance sheet date since its procurement is seasonal in nature. The current and quick ratio remains comfortable at 3.10x and 1.18x respectively as on FY22 end (5.41x and 2.25x respectively as on FY21 end).

As articulated by the management, VSL propose to avail enhancement in its working capital facilities, which will provide headroom to meet increased working capital requirement after commencement of enhanced yarn manufacturing capacity.

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](#)
[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

Incorporated in April 1992, VSL is a public limited company, promoted by Ujjain-based Mutha family. VSL manufactures open-ended cotton yarn through rotor spinning technology at its facility located in Dewas near Indore, Madhya Pradesh (MP). As on December 31, 2022, VSL has an installed capacity of 3,168 rotors or 9,000 MTPA for manufacturing of cotton yarn for counts ranging from 4s to 32s, which will be enhanced to 12,500 MTPA by the end of March 31, 2023. 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. VSL has also set up a 6 Megawatt (MW) of wind mill and 1 MW of solar power plant for captive consumption.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	December 31, 2023 (Prov.)
Total operating income	87.57	139.43	109.10
PBILDT	6.93	16.86	14.35
PAT	3.97	12.17	10.50
Overall gearing (times)	0.07	0.23	0.20
Interest coverage (times)	22.15	65.23	89.69

A: Audited; Prov.: Provision

Status of non-cooperation with previous CRA: None

Any other information: 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: Annexure-4

Lender details: Annexure-5

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 - LT/ ST-CC/Packing Credit	-	-	-	-	22.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	0.30	CARE BBB+; Stable / CARE A2

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	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	0.30	CARE BBB+; Stable/ CARE A2	-	1)CARE BBB+; Stable / CARE A2 (03-Mar-22)	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 (03-Mar-22)	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 the covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of the various instruments rated**

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

Annexure-5: Lender detailsTo view the lender wise details of bank facilities please [click here](#)

Note on the 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 for any clarifications.

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