

## Vippy Spin Pro Limited

March 22, 2024

| Facilities/Instruments                 | Amount (₹ crore)               | Rating <sup>1</sup>         | Rating Action |
|--|--------------------------------|-----------------------------|---------------|
| Long-term bank facilities              | 36.48<br>(Enhanced from 33.50) | CARE BBB+; Stable           | Reaffirmed    |
| Long-term / short-term bank facilities | 28.30<br>(Enhanced from 22.30) | CARE BBB+; Stable / CARE A2 | Reaffirmed    |

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Ratings assigned to 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. Ratings continue to factor its comfortable financial risk profile and adequate liquidity.

Ratings also takes cognisance of improving scale of operations in 9MFY24 considering healthy growth in sales volumes, despite deteriorating profitability in 9MFY24 as a result of narrowing of spread between cotton and cotton yarn prices. However, ratings continue to be constrained from profitability susceptible raw cotton price volatility and its presence in a competitive and cyclical textile industry.

### Rating sensitivities: Factors likely to lead to rating actions:

#### Positive factors

- Volume-driven growth in scale of operations above ₹300 crore, while maintaining profit before interest, lease rentals, depreciation, and taxes (PBILDT) margin above 12% on a sustained basis.
- Improving liquidity and gross current assets days below 120 days.

#### Negative factors

- Significantly declining scale of operations and dipping PBILDT margin below 8% on sustained basis.
- Changes in government regulation adversely impacting operations.
- Increasing working capital intensity, leading to deteriorating capital structure and liquidity.

### Analytical approach: Standalone

#### Outlook: Stable

Stable outlook reflects CARE Ratings Limited's expectations that VPL shall be able to sustain its comfortable financial risk profile and grow its scale of operations from commercialisation of enhanced production capacities supported by experienced promoter group.

### Detailed description of key rating drivers:

#### Key strengths

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

Promoters of VSL are engaged in the spinning business since 1992 and over time, the management developed a strong operational base. The company's overall affairs are headed by Piyush Mutha, Managing Director having around three decades of experience in textile industry. He is assisted by his brother, Praneet Mutha, who also has more than two decades of experience in this industry. The Mutha family also promoted Vippy Industries Limited (VIL; rated CARE BBB+; Stable /CARE A2), engaged extracting soya oil from soya seeds, refining of crude soya oil, and manufacturing of value-added soya-based products since 1973.

##### Comfortable financial risk profile; despite moderation post availing term debt for capex in FY23

VSL's capital structure remained comfortable, marked by below unity overall gearing of 0.41x as on March 31, 2023, as against 0.23x as on March 31, 2022; despite moderation. Moderation in overall gearing was due to availing term loan for capex. Debt coverage indicators also deteriorated but remained comfortable, marked by total debt to gross cash accruals (TD/GCA) of 2.07x in FY23 (1.02x in FY22).

Similarly, the interest coverage ratio deteriorated but remained healthy at 32.00x in FY23 as against 65.23x in FY22. In 9MFY24 (UA), VSL's overall gearing stood comfortable at 0.39x, however PBILDT interest coverage deteriorated significantly but remained

<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

healthy at 5.87x (against 89.69x in 9MFY23) due to availing term loans leading to increase in interest costs. CARE Ratings expects VSL's capital structure to remain comfortable at below unity in FY24.

### **Stable industry outlook**

In FY22, the Indian cotton yarn manufacturers achieved record-high profitability due to strong demand, lower domestic cotton prices compared to international prices, and the USA's ban on cotton products from China's Xinjiang region, which redirected some of the demand to India. However, the industry faced several challenges in FY23. These included disparity between domestic and international cotton prices, decline in global demand due to high inflation, recessionary pressures in developed economies, and increased energy and supply chain costs. India experienced its lowest cotton yarn exports in a decade, leading to a decline in sales volume and a contraction in operating profitability margin for cotton yarn spinners in FY23, which remained below the historical average.

While challenges persisted in H1FY24, there are positive indications for demand of Indian cotton yarn in H2FY24. Factors contributing to this improvement include alignment of Indian cotton prices with international prices, a shift in demand from competing nations, gradual recovery in demand from China following relaxation of its zero-COVID policy, and a rebound in global demand from downstream industries. The Indian cotton yarn industry is likely to witness 5-7% growth in sales volume, while operating margin is expected to expand by 100-150 bps in FY24 over FY23. On a long-term basis, Indian cotton spinners are expected to maintain stable demand growth and profitability, supported by increasing urbanisation, rising disposable income, China plus one strategy adopted by major global retail players and various incentives from government such as 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 among others.

### **Key weaknesses**

#### **Moderate scale of operations; despite deteriorating in profitability in 9MFY24**

In FY23, VSL registered growth in TOI by around 12% to ₹ 156.32 crores from ₹139 crore FY22, mainly lead by improved realisation, however, margins remained under pressure due to sharp increase in raw cotton input prices of in Q4FY23. Considering improved demand on a sequential quarter basis, the scale witnessed a growing trend in the current financial year. The capacity utilisation remained healthy at 86% in FY23 (95% in FY22). This improved to 109% in 9MFY24 (77% in 9MFY23) due to production of low count yarn from increased demand in the market.

The PBILDT and PAT margin improved by around 206 bps to 13.15% in FY23 against 12.09% in FY22 and 89 bps to 9.62% in FY23 against 8.73% in FY22 respectively due to sizable jump in the spread between cotton and cotton yarn and inventory gain on low cost cotton. It reported improved GCA to ₹ 14.05 crores in FY23 (₹ 13.45 crore in FY22).

However, in 9MFY24 (UA), VSL reported TOI of ₹ 186 crores (₹ 109.10 crore) surpassing full year FY23 TOI due to improved demand, which was fulfilled by increased capacity of the plant due to recent expansion done in FY23. However, profitability margins deteriorated significantly in 9MFY24 to 6.05% as compared to 13.15% in 9MFY23. Margins were higher in FY23 due to a jump in the spread of cotton and cotton yarn prices. Prices were expected to get corrected in FY24, which was considered at the time of last surveillance.

Going forward, improving demand for its products and improved orders from existing and new customers the company is expected to report a revenue of ₹255 crore in FY24. Considering stabilisation of its cotton prices, margins are expected to improve in FY24 from 9MFY24 levels.

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

VSL operates in a cyclical and fragmented textile industry, marked by presence of many organised and unorganised players, leading to high competition in the industry. Apart from competition, commoditised cotton yarn also limits pricing ability of the industry players to an extent. Textile industry is inherently cyclical and closely follows macroeconomic business cycles. Prices of raw materials and finished goods are also determined by global demand-supply scenario, hence adverse changes in macroeconomic environment globally have a direct impact on domestic textile industry.

#### **Profitability susceptible to raw material price volatility**

Basic raw material consumed by VSL to produce yarn is raw cotton, accounts for more than 80-85% of total cost of production. Raw cotton prices are volatile and depend on multiple factors such as area under production, yield for year, vagaries of monsoon, international demand-supply scenario, inventory carry forward from previous year and minimum support price (MSP) decided by the government among others. Raw cotton prices have been volatile over last couple of years, which translates into risk of inventory losses for industry players; and also leads to inventory gains. Collectively, these factors and intense competition in the industry contribute to low bargaining power of yarn manufacturers and volatility in profitability.

#### **Liquidity: Adequate**

VSL's liquidity remained adequate, marked by low utilisation of working capital limits and comfortable GCA against scheduled debt repayment obligations. Average utilisation of FB-WC limits remained low at around 17.57% in 12-months ended February 29, 2024. VSL has sufficient cushion as GCA of ₹14.05 crore in FY23 as against scheduled repayments of long-term debt of mere ₹6-7 crore (FY24-FY25). VSL reported a positive CFO of ₹ 26.65 crore in FY23 due to decrease in inventory and receivable levels.

In FY23, VSL's operating cycle improved to 132 days (145 days in FY22); despite remaining elongated due to maintaining high inventory of raw cotton as on the balance sheet date, since its procurement is seasonal. The current and quick ratio improved

and remained comfortable at 3.47x and 1.64x respectively as on March 31, 2023, as against 3.28x and 1.37x respectively as on March 31, 2022.

Enhanced working capital limits will provide adequate headroom to meet increased working capital requirement due to capex incurred in FY23.

**Environment, social, and governance (ESG) risks:** Not applicable

### Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Cotton Textile](#)

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### About the company and industry

#### Industry classification

| Macro-economic indicator | Sector   | Industry              | Basic industry         |
|--------------------------|----------|-----------------------|------------------------|
| Consumer discretionary   | Textiles | Textiles and Apparels | Other textile products |

Incorporated in April 1992, Vippy Spin Pro Limited (VSL) is a public limited company promoted by the Mutha family based in Ujjain, Madhya Pradesh. VSL manufactures open-ended cotton yarn through rotor spinning technology at its facility in Dewas near Indore, MP. As on December 31, 2023, VSL had an installed capacity of 12,500 Metric Tonne Per Annum (MTPA) for manufacturing cotton yarn for counts ranging from 4s to 32s. VSL specialises in manufacturing slub yarn, multi-count yarn, multi-twist yarns, and waxed yarn, which finds applications in industrial fabrics, clothing fabric and denim. It markets product in domestic and export markets. VSL has set up a 0.6 Megawatt (MW) of Windmill and 1MW of Solar power plant for captive consumption.

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | 9MFY24 (UA) |
|----------------------------|--------------------|--------------------|-------------|
| Total operating income     | 139.43             | 156.32             | 186.32      |
| PBILDT                     | 16.86              | 16.70              | 11.27       |
| PAT                        | 12.17              | 10.71              | 1.90        |
| Overall gearing (times)    | 0.23               | 0.41               | 0.44        |
| Interest coverage (times)  | 65.23              | 32.00              | 5.87        |

A: Audited UA: Unaudited; Note: 'these are latest available financial results'

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

**Any other information:** Not applicable

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

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

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

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

| Name of the Instrument                 | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|--|------|-------------------------------|-----------------|----------------------------|-----------------------------|---|
| Fund-based - LT/ ST-CC/Packing Credit  |      | -                             | -               | -                          | 28.00                       | CARE BBB+; Stable / CARE A2               |
| Non-fund-based - LT/ ST-Bank Guarantee |      | -                             | -               | -                          | 0.30                        | CARE BBB+; Stable / CARE A2               |
| Term Loan-Long Term                    |      | -                             | -               | Nov 2029                   | 36.48                       | CARE BBB+; Stable                         |

**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 2023-2024 | 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  |
| 1       | Non-fund-based - LT/ ST-Bank Guarantee | LT/ST           | 0.30                         | CARE BBB+; Stable / CARE A2 | 1)CARE BBB+; Stable / CARE A2 (20-Apr-23)   | 1)CARE BBB+; Stable / CARE A2 (20-Feb-23)   | 1)CARE BBB+; Stable / CARE A2 (03-Mar-22)   | 1)CARE BBB+; Stable / CARE A2 (09-Mar-21)<br>2)CARE BBB+; Stable / CARE A2 (27-May-20) |
| 2       | Fund-based - LT/ ST-CC/Packing Credit  | LT/ST           | 28.00                        | CARE BBB+; Stable / CARE A2 | 1)CARE BBB+; Stable / CARE A2 (20-Apr-23)   | 1)CARE BBB+; Stable / CARE A2 (20-Feb-23)   | 1)CARE BBB+; Stable / CARE A2 (03-Mar-22)   | 1)CARE BBB+; Stable / CARE A2 (09-Mar-21)<br>2)CARE BBB+; Stable / CARE A2 (27-May-20) |

|   |                     |    |       |                   |                                 |   |   |   |
|---|---------------------|----|-------|-------------------|---------------------------------|---|---|---|
| 3 | Term Loan-Long Term | LT | 36.48 | CARE BBB+; Stable | 1)CARE BBB+; Stable (20-Apr-23) | - | - | - |
|---|---------------------|----|-------|-------------------|---------------------------------|---|---|---|

LT: Long term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of 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           |
| 3       | Term Loan-Long Term                    | Simple           |

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

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

## Contact us

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