

## V-Star Creations Private Limited

July 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	57.28 (Reduced from 63.35)	CARE BBB; Negative	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	0.25	CARE A3	Assigned
Short-term bank facilities	1.29 (Enhanced from 1.22)	CARE A3	Revised from CARE A3+

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Revision in short-term ratings assigned to bank facilities of V-Star Creations Private Limited (VCPL) factors in deteriorating debt coverage metrics in FY24 (refers to April 01 to March 31). The company's total operating income (TOI), which improved in FY23 dropped in FY24, leading to an inventory buildup. The company has also provided inventory basis ageing, which affected profitability as well, with the company reporting net losses.

Ratings continue to derive strength from vast experience of promoters in the business, and its long track record in the innerwear segment with an established brand. However, ratings are constrained by moderate scale of operations in a highly competitive segment, declined profit margins with cash losses in the last two years, sales confined largely to a single state, and working capital intensive operations, marked by high inventory holding.

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

#### Positive factors

- Scaling up operations above ₹180 crore while maintaining a profit before interest, lease rentals, depreciation and taxation (PBILDT) margin over 10% on a sustained basis.
- Improving debt coverage metrics with interest coverage (PBILDT/Interest) above 2x.
- Improving operating cycle below 150 days on sustained basis with effective inventory management.

#### Negative factors

- Dropping operating income below ₹100 crore on a sustained basis.
- Increasing leverage levels, with overall gearing ratio exceeding 1.5x.
- Further losses and discontinuance of promoters' funding support for operations in liquidity shortfall.

### Analytical approach: Standalone

#### Outlook: Negative

The outlook is negative as the company's sales growth is expected to be challenging with significant amount of inventory holding, which may have to be disposed at discounted pricing or higher provisions, leading to pressure on profitability and consequently debt coverage indicators. The outlook may be revised to stable in case the company is able to exhibit sales growth, lower inventory levels and stabilise debt coverage indicators.

### Detailed description of key rating drivers:

#### Key strengths

##### Vast experience of promoters belonging to V-Guard group

VCPL is promoted by Sheela Grace Kochouseph, spouse of Kochouseph Chittilappilly, who promoted V-Guard Industries Limited (VIL). VIL is a leading manufacturer of voltage stabiliser, Digital UPS, inverter and inverter batteries, electric water heaters, solar water heaters, domestic pumps, and agricultural pumps, among others. VIL's day-to-day operations are overseen by his son, Mithun Chittilappilly Kochouseph, who is the Managing Director. He is also a Director in VCPL.

<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.

**Established track record of operations**

VCPL is primarily into manufacturing and retailing innerwear and lifestyle garments since 1996. The company started as a partnership firm in 1995, engaged in manufacturing ready-to-stitch ethnic wear. Since 1996, the company manufactures innerwear and lifestyle wear catering to women, men and kids. The company has an asset light manufacturing model and meets around 80% of entire production requirements through outsourcing.

**Established brand with multiple marketing channels**

VCPL has created 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 wear in the overall mix has been steadily increasing over the years. As on June 30, 2024, there are 39 EBOs, including 14 franchises and around 70 distributors servicing over 5,000 MBOs across south India and a pan-India presence through leading e-commerce platforms.

**Key weaknesses****Moderate scale of operations with declined profitability and debt coverage metrics**

Scale of operations stood relatively moderate with operating income of ₹144.46 crore in FY24, which declined from ₹161.40 crore in FY23 considering slowdown in demand and increased competition. Higher provision for aged inventories, increased promotion expenses and fixed overheads led to declined profitability in the last two years. PBILDT margin declined from 9.23% in FY22 to 1.94% in FY23 and operating losses in FY24. Debt protection metrics moderated since the company reported cash losses of ₹5 crore in FY24 (PY: cash loss of ₹0.80 crore).

**Moderate capital structure**

Overall gearing, which stood comfortable at 1.19x as on March 31, 2021, moderated over the years to 1.36x as on March 31, 2024, considering increased working capital borrowings and net losses reported in FY23 and FY24. Unsecured loans from promoters stood at ₹12.0 crore as on March 31, 2024, as against ₹17 crore as on March 31, 2023. The company had repaid ₹5 crore of unsecured loans in FY24.

**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. Prices of cotton fabric, the key raw material, depend on prices of cotton and yarn, which are governed by factors such as area under cultivation, monsoon, export quota by government, and international demand-supply situation, among others. Cotton fabric being the key raw material, the company's ability to absorb variations in raw material prices and pass it to customers is a key for maintaining profitability level.

**Geographically concentrated revenue profile**

Sale of products is geographically concentrated in Kerala, which contributes around 80% of the TOI, exposing the business to risks related to state-specific policy regulations or adverse macro-economic developments affecting consumer spending.

**Liquidity:** Adequate

The company's liquidity is adequate, supported by need-based infusion of unsecured loans by promoters. Operating cycle elongated in the last two years from 160 days in FY22 to 181 days in FY24 due to higher credit period offered to distributions amidst competition and lower creditor days. The company's quick ratio stood moderate at 0.66x, as on March 31, 2024 (PY: 0.62x) considering higher inventory holding. VCPL has been sanctioned with ₹55.10 crore of working capital limits and its average utilisation stood comfortable at 64% for 12-months ended May 2024.

**Assumptions/Covenants:** Not applicable

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

**Applicable criteria**

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## About the company and industry

### Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Textiles	Textiles & apparels	Garments & apparels

VCPL was established in 1995 in Kerala as a partnership firm and later converted into private limited company in 1996. VCPL is primarily into manufacturing and retailing innerwear and lifestyle garments for men, women and kids under the brand name of 'V-Star' through exclusive brand outlets and multi brand outlets, primarily in Kerala. Sale of women garments contributed 72% (PY: 73%) of the income, while the men and kids' wear contributed to 21% (PY: 20%) and 7% (PY: 7%), respectively, in FY24.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	143.61	161.40	144.46
PBILDT	13.26	3.13	-0.59
PAT	7.00	-1.42	-6.39
Overall gearing (times)	1.19	1.40	1.36
Interest coverage (times)	4.52	0.68	NM

A: Audited UA: Unaudited NM: Not Meaningful; 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:** Annexure-2

**Covenants of rated instruments / facilities:** 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-Cash Credit		-	-	-	54.00	CARE BBB; Negative
Fund-based - ST-Working Capital Limits		-	-	-	1.10	CARE A3
Fund-based-Long Term		-	-	September 2027	3.28	CARE BBB; Negative
Non-fund-based - ST-Bank Guarantee		-	-	-	0.04	CARE A3
Non-fund-based - ST-Bank Guarantee		-	-	-	0.15	CARE A3
Non-fund-based - ST-Loan Equivalent Risk		-	-	-	0.25	CARE A3

**Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based-Long Term	LT	3.28	CARE BBB; Negative	-	1)CARE BBB; Stable (02-Jun-23)	1)CARE BBB; Stable (11-Aug-22)	-
2	Fund-based - LT-Cash Credit	LT	54.00	CARE BBB; Negative	-	1)CARE BBB; Stable (02-Jun-23)	1)CARE BBB; Stable (11-Aug-22)	-
3	Non-fund-based - ST-Bank Guarantee	ST	0.04	CARE A3	-	1)CARE A3+ (02-Jun-23)	1)CARE A3+ (11-Aug-22)	-
4	Non-fund-based - ST-Bank Guarantee	ST	0.15	CARE A3	-	1)CARE A3+ (02-Jun-23)	1)CARE A3+ (11-Aug-22)	-
5	Fund-based - ST-Working Capital Limits	ST	1.10	CARE A3	-	1)CARE A3+ (02-Jun-23)	1)CARE A3+ (11-Aug-22)	-
6	Non-fund-based - ST-Loan Equivalent Risk	ST	0.25	CARE A3				

LT: Long term; ST: 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-Cash Credit	Simple
2	Fund-based - ST-Working Capital Limits	Simple
3	Fund-based-Long Term	Simple
4	Non-fund-based - ST-Bank Guarantee	Simple
5	Non-fund-based - ST-Loan Equivalent Risk	Simple

**Annexure-5: Lender details**

To view 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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