

Vippy Spin Pro Limited

March 23, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term/Short-term Bank Facilities	19.00	CARE BBB+; Stable/ CARE A2 (Triple B Plus, Outlook: Stable/ A Two)	Reaffirmed
Total facilities	19.00 (Rs. Nineteen Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vippy Spinpro Limited (VSL) continue to take into account the experienced management with its long track record of operations and location advantage. The ratings, further, continue to derive strength from continuous growth in scale of operations with established clientele, moderate profitability margins, comfortable solvency position and adequate liquidity position.

The ratings, however, continue to remain constrained on account of susceptibility of profit margins of VSL to volatility in raw cotton prices and its presence in the fragmented and competitive industry along with inherent cyclicity and regulatory risk associated with the textile industry.

Rating Sensitivities

Positive Factor:

- Sustained increase in scale of operations of the company above Rs.150 crore.
- Improvement of profitability margins with registration of PBILD margin above 10% on sustained basis.

Negative Factor:

- Any debt-funded project undertaken by the company which results in deterioration of capital structure beyond 0.75 times.
- Any changes in government regulation which adversely impacts the operations of the company

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations coupled with strong promoter group

Promoters of VSL are engaged into spinning business since 1992 and over the period of time, the management has developed strong operational base. The 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 decade 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 into soya products business since 1973.

Continuous growth in Total Operating Income (TOI) with established customer base

Being present in the industry since long period of time, it has established customer base and gets repetitive orders from them. During FY19, it has generated 66.12% of TOI from top seven customers. Due to it, the scale of operations of VSL has witnessed continuous growth during past three financial years ended FY19 and grew at a Compounded Annual Growth Rate (CAGR) of 7.29% in the same time period owing to growing sales realization of cotton yarn. During FY19, TOI of VSL has improved by 6.92% over FY18.

In 9MFY20, TOI of the company remained similar as compared to 9MFY19 and stood at Rs.85.39 crore.

Moderate profitability margins coupled with marginal deterioration in 9MFY20

Profitability margins of VSL continue to remain moderate marked by PBILD margin of 7.98% and PAT margin of 3.93% respectively in FY19. PBILD margin has improved by 95 bps in FY19 over FY18 mainly on account of proportionately lower power and fuel cost as well as lower cost of material consumed. With improvement in PBILD margin, PAT margin has also increased by 71 bps in FY19 over FY18. It also results in growth in GCA level from Rs.5.82 crore in FY18 to Rs.6.70 crore in FY19.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Comfortable solvency position

The capital structure of the company continues to remain comfortable marked by overall gearing ratio of 0.50 times as on March 31, 2019. The debt service coverage indicators of the company stood comfortable marked by total debt to GCA at 3.00 times as on March 31, 2019, marginally improved from 3.05 times as on March 31, 2018 owing to higher GCA level as against increase in total debt. Interest coverage has also improved from 7.71 times in FY18 to 8.81 times in FY19 on account of proportionately higher increase in PBILDT level than interest expenses.

Key Rating Weaknesses

Susceptibility of profit margins of VSL to volatility in raw cotton prices

VSL's profitability is susceptible to the movement in the prices of raw cotton and cotton yarn. The prices of raw cotton are volatile in nature and depend upon factors like area under production, yield for the year, international demand supply scenario, inventory carry forward from the previous year and export quota along with minimum support price (MSP) decided by the government. Prices of raw cotton have been volatile over last couple of years, which translates into risk of inventory losses for the industry players. Furthermore, these factors have contributed to decline in bargaining power of yarn manufacturers leading to subdued margins.

Fragmented market along with inherent cyclical and regulatory risk associated with the textile industry

Textile is a cyclical industry and closely follows the macroeconomic business cycles. High competitive intensity in the textile industry, volatility of cotton prices, elevated inflation levels and sluggish demand outlook from developed markets are the major cause of concern for the Indian textile industry.

A slowdown in the garment industry is one of the biggest risk faced by cotton spinners today especially on account of shift in bulk of garment production to Bangladesh and Vietnam to meet the global demand. Going ahead, the prices of cotton and cotton yarn are likely to be largely determined by the Chinese cotton policy, trend in the currency movement and yield of raw cotton.

Liquidity: Adequate

The liquidity position of the company remained adequate marked by about 51% average of maximum utilization in past 12-months ended January 2020. Since the company is engaged into cotton yarn manufacturing and operations of cotton business are seasonal in nature and procurement period of the raw material i.e. cotton lies in the Q4 which results in higher inventory as on balance sheet date and consequently operating cycle stood high at 139 days in FY19 as against 127 days in FY18. Due to high inventory, current ratio stood comfortable at 2.11 times while quick ratio stood below unity level as on March 31, 2019. The company had cash and bank balance of Rs.0.03 crore and it has envisaged GCA of Rs.6.16 crore as against debt repayment obligation of Rs.0.75 crore for FY20.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Policy on Withdrawal of ratings](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Manmade Yarn Manufacturing](#)

[Financial ratios – Non-Financial Sector](#)

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, 2019 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)	31-03-2018	31-03-2019
	A	A
Total operating income	106.48	113.85
PBILDT	7.49	9.09
PAT	3.34	4.47

Brief Financials (Rs. crore)	31-03-2018	31-03-2019
	A	A
Overall gearing (times)	0.49	0.50
Interest coverage (times)	7.71	8.81

A:Audited

In 9MFY20, the company has achieved TOI of Rs.85.39 crore with PBILD and PAT margin of 6.34% and 3% respectively.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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 Guarantees	-	-	-	1.00	CARE BBB+; Stable / CARE A2
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	18.00	CARE BBB+; Stable / CARE A2
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	1.00	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (01-Apr-19)	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-18)	1)CARE BBB+; Stable / CARE A2 (20-Mar-17)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	18.00	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (01-Apr-19)	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-18)	1)CARE BBB+; Stable / CARE A2 (20-Mar-17)
3.	Fund-based - LT-Term Loan	LT	-	-	1)CARE BBB+; Stable (01-Apr-19)	-	1)CARE BBB+; Stable (30-Mar-18)	1)CARE BBB+; Stable (20-Mar-17)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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