



Rating Rationale

Vishal Fabrics Limited

28 Mar 2020

Brickwork Ratings upgrades the ratings of the Bank Loan Facilities of Rs. 344.29 Crores (INR Three Hundred Forty Four Crore and Twenty Nine Lakhs Only/-) of Vishal Fabrics Limited (VFL or ‘the Company’).

Particulars

Facility	Amt Rated (Rs . Crs)		Tenure	Previous Rating (March 2019)	Rating Based on Current Review (Upgraded)
	Previous	Present			
Fund Based – TL	211.63	158.29	Long Term	BWR BBB+ (Outlook: Stable)	BWR A- (Outlook: Stable)
Fund Based – CC	170	160			
Non Fund Based	26.5	26.00	Short Term	BWR A2	BWR A2+
Total	408.13	344.29 (Three Hundred Forty Four Crore and Twenty Nine Lakhs Only)			

^ Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rating: Upgraded

The upgrade in rating follows substantial improvement in performance of the Company with ramp up of operations of all the eight denim lines with significant backward integration within the denim value chain, which lends competitive advantage against its peers.

The ratings continue to take comfort from established experience of the promoters in the textile industry, sound operating performance with comfortable capital structure, eligibility of Company’s capex to various state and Central Government Incentives available in the form of subsidies.

The ratings are, however, constrained by cyclical risks associated with the textile industry, large capacities created in Gujarat due to the present supportive policies of the State Government, and working capital intensive nature of business.



The Stable outlook on the long term rating indicates low likelihood of rating change in medium term. The Company will be able to sustain the existing operating performance in the medium term with the Group's experience in the textile industry, ramp up of operations in denim division and expected fiscal incentives from the State Government for the capex incurred.

Key Rating Drivers

Successful Ramp-up of Denim Division leading to improvement in operating performance:

The denim division has been commissioned phase wise over the last two years. In Sep-19, the Company fully operationalized all the eight denim processing units, achieving an installed capacity of 800 lakhs mtr / annum at Dholi Integrated Spinning Park (DISP), Gujarat. Associates of Chiripal Group supply yarn to VFL, VFL will do dyeing and other group associates will do the weaving for VFL. VFL then processes the Fabric and sells it in the open market through well-established delivery chains.

The other division of the Company is the processing division. The processing unit of the Company is based in Narol, Ahmedabad (Gujarat) with an installed capacity of 1200 lakh mtr / annum of processing fabrics other than denim. The Company started its processing unit way back in 1985 and has been successfully running its process house for more than three decades.

The on-streaming of the denim division led to substantial improvement in operating performance of the Company in FY19 and 9MFY20. During FY19, total revenue increased by 12% to Rs. 1000 CR and operating margins increased from 6.3% in FY18 to 7.60% in FY19. With full operationalisation in Sep-19, revenue increased to Rs. 955 Cr (34% increased YoY) during 9MFY20 with operating margins improving to 7.9%. Denim division contributed to 60% of total revenue with balance 40% contributed by process house. The process house of VFL is a debt-free unit earning EBIDTA of around 8.5%-9% annually. The EBIDTA of denim division has improved from 5.06% in FY17 to 7.70% in 9MFY20 due to ramp up in denim operations. The Denim division of the Company caters to the premium segment and earns sales realization of over Rs.165 per meter.



Integrated operations with proximity to raw-material source provide advantage over its peers: The VFL's manufacturing facilities are located at DISP, in close proximity to the cotton growing belt in Gujarat. In order to backward integrate its operations, it has established entities in spinning, dyeing, weaving and processing, which enables better management of its cost structure and aids in higher profitability against its competitors.

Incentives: The Company is eligible for State and Central Government subsidies such as 10% capital subsidy for Plant and Machinery, 5% interest subsidy under state textile policy and GST refund for raw-materials. In all, VFL is eligible for the subsidy of Rs.24 Cr. Timely receipt of this subsidy will be key rating sensitivity.

Experienced Promoters: VFL has been promoted by Shri Brijmohan Chiripal who has nearly three decades of experience in the fabric and yarn business and marketing of knitted apparels. The management consists of a team of experienced and qualified professionals who are responsible for day-to-day operations of the Company.

Part of Reputed Chiripal Group: The Company belongs to CHIRIPAL group which has strong presence in textile industry and have developed strong brand presence. Chiripal Group, which started in 1972 as a manufacturer of fabric under the leadership of Shri Vedprakash Chiripal, is presently one of the largest manufacturers and exporters of various types of textile and BOPP film products in India. The group over the years has grown into a vertically integrated enterprise having manufacturing facilities for POY, texturizing, cotton spinning, denim weaving, knitting and processing, home furnishing, garmenting and BOPP films. The group also has a significant presence in the international markets and is currently exporting textiles & garments to various international brands and wholesalers in Europe, USA, Canada, South America, Middle East, Gulf and African countries. The Group has also diversified its business activities in the fields of industrial parks and education.

The Company has established market presence and long standing relations with clients due to which it holds a strong market position.

Comfortable Coverage Ratios: Total cost incurred for setting up of a denim processing unit was Rs. 283.26 Cr funded in Debt to Equity Ratio of 70:30. The Company had taken the term



loan of Rs.198 Cr from a consortium of banks for the project of which Rs. 158 Cr was outstanding as on December 31, 2019. The Company had the gearing ratio of 1.2x excluding the unsecured loans from promoters of Rs.92.5 Cr as on December 31, 2019. With improvement in profitability, debt coverage indicators remain comfortable with ISCR of 2.5x and DSCR of 1.3x as on December 30, 2019.

Working capital intensive nature of business: The operations of the Company are working capital intensive considering the level of inventory and receivables levels, and consequent higher percentage utilization of their working capital limits. For the last 12 months, the average utilisation level of the working capital limits was 75-80%.

Industry and Competition Risk: Industry Risk relating to textile is considered moderate, due to the nature of its operations, and also because of the high capacities created in the recent years in the State of Gujarat, as also due to compressed margins. Although the Company has expanded towards premium quality products, and there are linkages with companies belonging to promoters/Group, the margins can come under pressure.

Analytical Approach

Vishal Fabrics Ltd. is rated on a stand-alone basis. However, it is recognised that the promoters belong to the reputed Chiripal group of textile industries, which includes listed entities like Nandan Denim Ltd., CIL Nova Petrochemicals Ltd. apart from Vishal Fabrics Ltd.

Rating Sensitivities:

Credit Positive: Improvement in operating performance with improved realisations and improvement in capital structure will be credit positive.

Credit Negative: Deterioration in operating performance with decrease in margins and delay in realisation of fiscal incentives will be credit negative.



Liquidity (Adequate): As on Sep 30, 2019, the Company had cash and cash equivalent of Rs. 9 Cr, net cash accruals of Rs. 46.27 Cr and unutilised cash credit limits of Rs.35 Cr. This liquidity is considered to be adequate considering the current debt servicing obligation of the company.

About the Company

Vishal Fabrics Limited (“VFL” or “Company”), incorporated in 1985 is a part of the Ahmedabad based Chiripal Group (“Chiripal” or “Group”). It is primarily engaged in the business of dyeing, printing and processing of fabrics of its own and also on job work basis. The Company procures mainly gray fabric and dyes, prints and finishes the same as per the client’s requirements. The processing unit of the Company is based in Narol, Ahmedabad (Gujarat) with an installed capacity of 1050 lakh mtr / annum.

VFL has entered into denim processing business by settling of 8 units in Dholi, Gujarat having the capacity of 800 lakh mtr/annum.

The Company went public in 2014 and is listed on BSE. As on December 31, 2019, more than 65% of the holdings is with the promoters.

Mr. Brijmohan Chiripal is the Chairman and Managing Director of the Company.

Group Profile:

The Chiripal Group, which started in 1972 as a manufacturer of fabric under the leadership of Shri Vedprakash Chiripal, is presently one of the largest manufacturers and exporters of various types of textile and BOPP films products in India. The group over the years has grown into a vertically integrated enterprise having manufacturing facilities for POY, texturizing, cotton spinning, denim weaving, knitting and processing, home furnishing, garmenting and BOPP films. The group also has a significant presence in the international markets and is currently exporting textiles & garments to various international brands and wholesalers in Europe, USA, Canada, South America, Middle East, Gulf and African countries. The Group has also diversified its business activities in the fields of industrial parks and education.

Company Financial Performance

Rs. Crore	FY18	FY19	9MFY19
	Audited	Audited	Unaudited

Total Operating Income	892	1000	715
Operating Profit	56	76	40
Net Profit	16	18	10
Total Debt*	327	356	332
Quasi Equity*	67	93	67
Adjusted Debt*	260	264	265
Tangible Networth*	199	217	206
Gearing (x)*	1.6	1.6	1.6
Adjusted Gearing (x)*	1.3	1.2	1.3
Current Ratio*	1.14	1.5	1.44

Rating History for the last three years

Sn	Instrument/Facility	Current Rating (Year 2020)			Rating History		
		Type	Amt	Rating	26-Mar-19	22-Jan-19	13-Dec-17
1	Fund Based – Term Loan	Long Term	158.29	BWR A- (Stable)	BWR BBB+ (Stable)	BWR BBB+ (Stable)	BWR BBB+ (Stable)
2.	Fund Based – Cash Credit	Long Term	160.00	BWR A- (Stable)	BWR BBB+ (Stable)	BWR BBB+ (Stable)	BWR BBB+ (Stable)
3	Non Fund Based	Short Term	26.00	BWR A2+	BWR A2	BWR A2	BWR A2
			344.29				

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)
- [Infrastructure](#)



COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

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ANNEXURE I

Details of Bank Facilities rated by BWR

Bank	Working Capital		Term Loans as on Jan 31, 2020	Total
	Fund Based	Non-Fund Based	Fund Based	
Bank of Baroda	40	7	37.77	84.77
Bank of Maharashtra	40	7	38.39	85.39
State Bank of India			34.66	34.66
Vijaya Bank (merged with Bank of Baroda)			18.59	18.59
Oriental Bank of Commerce	14	2	14.81	30.81
Lakshmi Vilas Bank			14.07	14.07
Union Bank of India	21	4		25
Bandhan Bank	25	5		30
SIB	20	1		21
Total	160	26	158.29	344.29

Rupees Three Hundred Forty Four Crore and Twenty Nine Lakhs Only.



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