

## Vardhman Polytex Limited

| Instrument                | Amount<br>(Rs. Crore) | Rating Action        |
|---------------------------|-----------------------|----------------------|
| Long-term fund-based      | 464.00*               | [ICRA]D / reaffirmed |
| Short-term non fund-based | 50.00                 | [ICRA]D / reaffirmed |

\*includes unallocated amount of Rs. 72.38 crore (increased from Rs. 42.13 crore)

Source: ICRA

ICRA has reaffirmed the [ICRA]D (pronounced ICRA D) rating assigned to the Rs. 514.00-crore<sup>1</sup> bank facilities of Vardhman Polytex Limited (VPL)<sup>†</sup>.

The rating reaffirmation takes into account the continued irregularities in debt servicing by VPL because of its weak liquidity position and inadequate cash accruals. As profitability and hence cash accruals of VPL's textile business had remained weak, the debt servicing in the past two years was largely supported by monetisation of its erstwhile acrylic yarn manufacturing unit's land as per the terms of the Corporate Debt Restructuring (CDR) scheme (approved in May 2013). With no incremental proceeds expected from asset monetisation currently, significant improvement in profitability of core operations would be necessary to regularise the debt servicing.

The credit profile of VPL continues to remain stretched because of its highly leveraged capital structure (Total Debt/Tangible Net Worth of 4.4x and Total debt/ OPBDITA of 7.1x in FY2016, at the standalone level), significant debt repayments and weak profitability. While the leverage has remained high because of sizeable debt-funded investments in subsidiaries and past capital expenditure, profitability has been weak because of constrained raw material procurement ability. Longer credit period availed from suppliers due to weak liquidity has affected the company's raw material procurement costs. Besides, the company's profitability continues to remain susceptible to the cyclical nature inherent in the spinning industry and volatility in cotton prices given its seasonal availability. Also, the commoditised nature of yarn and high competition in the spinning industry due to its fragmented nature exert pressure on the company's profitability.

Further, the credit profile of VPL also remains constrained by the contingent liability of ~Rs. 82.3 crore on account of the corporate guarantee given to its subsidiary, F.M. Hämmerle Textiles Ltd., which was declared a 'sick company'<sup>2</sup> in FY2016.

Going forward, regularisation of debt servicing supported by improvement in VPL's liquidity profile will be the key rating sensitivity. The improvement in liquidity, in-turn, will remain dependent on infusion of long-term funds and significant improvement in the profitability.

### Company Profile

Incorporated in 1981, VPL primarily manufactures cotton and cotton polyester blended spun yarn. Its manufacturing facilities in Ludhiana, Bathinda (both in Punjab) and Nalagarh (Himachal Pradesh) together have installed capacity of 1.95 lakh spindles. VPL also has a yarn dyeing unit in Ludhiana, with an installed capacity of 15.0 tons per day (tpd). It has a small presence in garmenting, with an installed capacity of manufacturing 7 lakh pieces per annum. VPL also manufactures yarn-dyed shirting fabric through its subsidiary, F.M. Hämmerle Textiles Ltd, which has a manufacturing facility in Kohlapur (Maharashtra).

VPL has invested Rs. 91.50 crore in its two subsidiaries, F.M. Hämmerle Textiles Ltd. and F.M. Hämmerle Verwaltungs GmbH, Austria. F.M. Hämmerle Textiles Ltd. falls under 'Sick Company' under the Sick Industrial and Companies (Special Provision) Act of 1985 and has been referred to Board for Industrial and Financial Reconstruction (BIFR).

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>†</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

<sup>2</sup> Under the Sick Industrial and Companies (Special Provision) Act of 1985 and has been referred to Board for Industrial and Financial Reconstruction (BIFR)



In FY2016, on a standalone basis, VPL reported an operating income of Rs. 883.6 crore and net profit of Rs. 9.0 crore against operating income of Rs. 944.5 crore and net loss of Rs. 28.8 crore in FY2015. On a consolidated basis, VPL reported an operating income of Rs. 960.7 crore and net loss of Rs. 15.0 crore in FY2016 against operating income of Rs. 1025.2 crore and net loss of Rs. 44.9 crore in FY2015.

#### **Recent Results**

In Q1FY2017, VPL reported an operating income of Rs. 198.8 crore and operating profit margin of 6.8% as against operating income of Rs. 209.3 crore and operating profit margin of 9.5% in Q1FY2016 and operating income of Rs. 233.6 crore and operating profit margin of 6.6% in Q4 FY 2015.

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*For further details please contact:*

*Analyst Contacts:*

**Mr. Rohit Inamdar** (Tel. No. +91-124-4545847)  
rohit.inamdar@icraindia.com

**Anil Gupta** (Tel. No. +91 124 4545 314)  
anilg@icraindia.com

**Deep Inder Singh** (Tel. No. +91 124 4545 830)  
deep.singh@icraindia.com

*Relationship Contacts:*

**Mr. Jayanta Chatterjee** (Tel. No. +91-80-43326401)  
jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500