

Press Release

Peppermint Clothing Private Limited

June 29, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 20.45 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE BB**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 20.45 crore bank facilities of Peppermint Clothing Private Limited. The outlook is '**Stable**'.

Peppermint Clothing Private Limited (PCPL) was incorporated in 2007 by Mr. Santosh Katariya and his brothers, Mr. Kamlesh Katariya and Mr. Rajendra Katariya. The company started operations in 2011. PCPL is engaged in manufacturing of readymade garments for girls of the age group 0-14 years. PCPL has a registered brand name 'Peppermint' with a manufacturing facility with a capacity to produce 12,00,000 pieces per year.

Key Rating Drivers

Strengths

- **Experienced management and established relations with reputed customers**

PCPL was incorporated in 2007. Kataria brothers have been in this line of business since 1985, gaining a wide amount of expertise and experience in producing varied designs based on the geography and tastes of its customers all over India. Promoters' extensive experience in the industry has helped them acquire long term relationship with reputed customers like Lifestyle International Private Limited, Central, Shoppers Stop Limited, among others. Acuite believes PCPL will continue to benefit in the long run from its experienced management and well established relations with reputed customers and suppliers.

- **Continuous growth in revenues**

PCPL started operations in FY2011. The company has recorded a CAGR of 13.20 percent for the period of FY2015-FY2018 (Provisional). Operating Income for FY2018 (Provisional) stood at Rs.72.80 crore as against an operating income of Rs.62.02 crore for FY2017 on account of higher sales made during the year in comparison to the previous year. Currently, the company is operating at ~80-85 percent capacity.

- **Average financial risk profile**

The financial risk profile of the company has been moderate marked by a high net worth of Rs.21.22 crore as on 31 March, 2018 (Provisional) as against Rs.17.70 crore as on 31 March, 2017 on account of presence of quasi equity worth Rs.8.00 crore. The gearing stood at 1.29 times as on 31 March, 2018 (Provisional) as against 1.31 times as on 31 March, 2017. The total debt of Rs.27.46 crore outstanding as on 31 March, 2018 (Provisional) comprises unsecured loans from Directors of Rs.7.92 crore, long term loans and working capital facility from the bank worth Rs.1.97 crore and Rs.17.57 crore respectively. The Interest Coverage Ratio stood at 2.57 times in FY2018 (Provisional) from 2.53 times in FY2017. The Net Cash Accruals increased to Rs.4.71 crore in FY2018 (Provisional) from Rs.2.98 crore in FY2017. The NCA/TD ratio stood at 0.17 times in FY2018 (Provisional) as against 0.13 times in FY2017.

Weaknesses

- **Working capital intensive operations**

The operations are working capital intensive marked by Gross Current Assets (GCA) of 260 days in FY2018 (Provisional) as against 247 days in FY2017. This is on account of high receivables and inventory

days of 168 and 100 days as on 31 March, 2018 (Provisional) as against 148 and 105 days as on 31 March, 2017 respectively. Further, the average cash credit utilisation stood at ~90-95 percent for the six months ended 31 April, 2018. Acuite believes being into garment industry and large format stores, the operations of the company are expected to remain working capital intensive. Hence, the ability of the company to maintain adequate funds for liquidity will be key rating sensitivity.

• Susceptibility of profitability to changes in input prices

The raw material procured by the company is fabric which is manufactured using cotton, polyester, the prices of which are fluctuating in nature on account of seasonality. These fabrics are being procured either from the domestic mills in India or from other import suppliers in the domestic market. Thus, the company's margins are exposed to the high volatility in prices of these fabrics.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Peppermint Clothing Private Limited to arrive at this rating.

Outlook: Stable

Acuite believes PCPL will maintain a 'Stable' outlook over the medium term driven by experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case the company achieved higher than expected revenue and improvement in profitability while maintaining its financial risk and liquidity profile. Conversely, the outlook may be revised to 'Negative' in case the financial profile deteriorates due to lower than expected accruals or higher than expected debt funded capex plan.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	72.80	62.02	53.80
EBITDA	Rs. Cr.	9.91	7.75	7.13
PAT	Rs. Cr.	3.70	1.59	2.74
EBITDA Margin	(%)	13.62	12.50	13.26
PAT Margin	(%)	5.08	2.56	5.10
ROCE	(%)	20.03	18.84	21.79
Total Debt/Tangible Net Worth	Times	1.29	1.31	2.60
PBDIT/Interest	Times	2.57	2.53	2.94
Total Debt/PBDIT	Times	2.76	2.91	2.94
Gross Current Assets (Days)	Days	260	247	232

Status of non-cooperation with previous CRA (if applicable)

CARE, vide its press release dated April 04, 2018 had denoted the rating of Peppermint Clothing Private Limited (PCPL) as 'CARE BB-; Stable/ CARE A4; Issuer Not Cooperating' because the company has not paid the surveillance fees for the rating exercise agreed to in its Rating Agreement.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.50	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.35	ACUITE BB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.60	ACUITE A4+

*Cash credit includes sublimit of Rs. 15.00 crore as ODBD.

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About Acuité Ratings & Research:

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