

## Press Release

### Peppermint Clothing Private Limited

August 27, 2019



#### Rating Upgraded and Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs. 20.45 Cr.
<b>Long Term Rating</b>	ACUITE BB+ / Outlook: Stable (Upgraded from ACUITE BB /Stable)
<b>Short Term Rating</b>	ACUITE A4+ (Reaffirmed)

\* Refer Annexure for details

#### Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB+** (read as **ACUITE BB plus**) from '**ACUITE BB**' (read as **ACUITE double B**) and reaffirmed 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**'.

The rating revision is in view of improvement in business risk profile as marked by improving revenues along with profitability margins. The company's revenue grew at a CAGR of ~14.61 per cent over the last three years through 2017-19 (Provisional). Also, PCPL surpassed Acuité projections for financial year FY2019 (Provisional) and FY2018.

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 began its 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 of capacity to produce 12,00,000 pieces per year.

#### Analytical Approach

Acuité has considered the standalone business and financial risk profiles of PCPL to arrive at the rating.

#### Key Rating Drivers

##### Strengths

- **Experienced management and reputed clientele**

PCPL was incorporated in 2007. Before promoting PCPL, Kataria brothers have been in this line of business since 1985, through its group company 'Crystal International'; thus gaining a wide amount of expertise and experience in producing varied designs based on the geography and tastes of its customers all over India. The promoters' extensive experience in the industry have helped them acquire long-term relationship with reputed customers such as Lifestyle International Private Limited, Central, Shoppers Stop Limited, among others. Acuité believes that PCPL will continue to benefit in the long-run from its experienced management and well-established relations with reputed customers and suppliers.

- **Healthy financial risk profile**

PCPL's financial risk profile is marked by its healthy net worth, low gearing and moderate debt protection measures. The net worth increased to Rs.32.30 crore as on 31 March, 2019 (Provisional) as against Rs.28.24 crore in the previous year on account of increasing revenue, leading to higher accretion to reserves. The networth also includes unsecured loans of Rs.15.00 crore in FY2019 (Provisional) from promoters, which are subordinated to bank debt. Hence, Acuité has treated them as quasi equity. The firm's gearing is estimated to be low at 0.82 times as on 31 March, 2019 (Provisional) as against 0.70 times in the previous year. The total debt of Rs.26.58 crore consists of long term debt of Rs.0.83 crore, Rs. 7.38 crore of unsecured loans from promoters and Rs.18.37 crore of short term debt obligations. The healthy revenue growth coupled with moderate profitability levels has resulted in healthy net cash accruals of Rs.6.00 crore during 2017-19 (Provisional), leading to moderate debt protection measures. The interest coverage ratio stood at 2.58 times in FY2019 (Provisional) as against 2.56 times in the previous year. NCA/TD ratio stood at 0.23 times in FY2019

(Provisional). Acuité believes that the financial risk profile will continue to remain healthy on account of healthy cash accruals and healthy growth in revenues.

- **Healthy growth in revenues and profitability**

The company's revenue grew at a CAGR of ~14.61 per cent over the last three years through 2017-19 (Provisional). PCPL showed healthy growth in revenues marked by operating income of Rs.81.47 crore in FY2019 (Provisional) as against Rs.72.70 crore in FY2018 and Rs.62.02 crore in FY2017. Further, the company has set up 5 new exclusive brand outlets in Chennai, Lucknow, Pune and Baramati, which would contribute to the revenues. The company's operating margins improved to 14.24 per cent in FY2019 (Provisional) as against 13.52 per cent in FY2018 and 12.50 per cent in FY2017. Further, the company reported Profit after Tax (PAT) margins of 5.27 per cent in FY2019 (Provisional) as against 4.87 per cent in FY2018 and 2.56 per cent in FY2017. Acuité believes that the company's ability to register significant growth in its revenues, while improving its profitability, would be key rating sensitivity.

### **Weaknesses**

- **Working capital intensive operations**

PCPL's operations are working capital intensive marked by Gross current assets (GCA) of 264 days in FY2019 (Provisional) as against 255 days in FY2018. This is on account of high receivables and inventory days of 166 and 105 days as on 31 March, 2019 (Provisional) as against 152 and 112 days as on 31 March, 2018, respectively. PCPL receives revenue from its customers, only when the sales are made. This increases the receivable days for the company. Further, the average cash credit utilization stood at ~95 per cent for the six months ended July, 2019. Acuité believes that being into garment industry and large format stores, the operations of the company are expected to remain working capital intensive and hence the ability of the company to maintain adequate funds to maintain its liquidity will be key rating sensitivity.

- **Susceptible to 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.

### **Liquidity Position:**

The company has adequate liquidity marked by its moderate net cash accruals as compared to its maturing debt obligations. PCPL generated cash accruals of Rs.2.9-6 crore during the last three years through 2017-19 (Provisional), while the maturing debt obligations were in the range of Rs.0.4-0.8 crore over the same period. The cash accruals are estimated to be in the range of Rs.6.5-9.0 crore during 2019-21, while its repayment obligations at Rs.0.3 crore. PCPL maintains cash and bank balances of Rs.0.75 crore as on March 31, 2019 (Provisional). The current ratio stood healthy at 2.11 times as on March 31, 2019 (Provisional). Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accrual over the medium term

### **Outlook: Stable**

Acuité believes that the outlook on PCPL's rated facilities will remain 'Stable' over the medium term on account of experienced management, improving revenues and profitability and moderate financial risk profile. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirement.

### About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	81.47	72.70	62.02
EBITDA	Rs. Cr.	11.60	9.83	7.75
PAT	Rs. Cr.	4.29	3.54	1.59
EBITDA Margin	(%)	14.24	13.52	12.50
PAT Margin	(%)	5.27	4.87	2.56
ROCE	(%)	19.03	19.86	18.84
Total Debt/Tangible Net Worth	Times	0.82	0.70	0.93
PBDIT/Interest	Times	2.58	2.56	2.53
Total Debt/PBDIT	Times	2.25	1.98	2.47
Gross Current Assets (Days)	Days	264	255	247

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

Not Applicable

### Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
29-Jun-2018	Cash Credit	Long Term	18.50*	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	1.35	ACUITE BB / Stable (Assigned)
	Letter of Credit	Short Term	0.60	ACUITE A4+ (Assigned)

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

### \*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 (Upgraded from ACUITE BB/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.28	ACUITE BB+ / Stable (Upgraded from ACUITE BB/Stable)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.67	ACUITE A4+ (Reaffirmed)

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

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### About Acuité Ratings & Research:

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