

Press Release

Peppermint Clothing Private Limited

July 09, 2021



Rating Downgraded

Total Bank Facilities Rated*	Rs.20.45 crore
Long Term Rating	ACUITE BB-/Outlook: Stable (Downgraded from ACUITE BB)
Short Term Rating	ACUITE A4 (Downgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

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

Also, Acuite has withdrawn the long term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs. 0.28 crore bank facilities of PCPL.

Reason for rating downgrade

The rating downgrade is on account of significant deterioration in the business risk profile of the company as reflected from the steep decline in operating income and net profitability of the company over the past 2 years leading to lower cash accruals. Moreover, there has been elongation in the working capital cycle of the company which has impacted the liquidity position of the company. However, the rating draws comfort from long and extensive experienced management and long track record of operations of the company.

About the Company

Maharashtra based, 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 the 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 Peppermint Clothing Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

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' and 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.

Acuité believes that the company will continue to benefit from the promoter's established presence in the industry and reputed clientele over the medium term.

• Well diversified geographical operations with reputed clientele

PCPL caters across 200 stores and large format stores in India and has a presence in the garment industry. It serves to reputed clientele such as Lifestyle, Shopper's Stop, Future Lifestyle and Lulu to name a few. PCPL has

long term relations with customers which ensure repeat orders.

Acuité expects the established position in the industry and healthy relations with both customers as well as suppliers will help the company to maintain stable credit profile in the medium term.

Weaknesses

- **Declining business risk profile**

PCPL showed declining revenue trend marked by operating income of Rs.27.31 crore in FY2021 (Prov), Rs.57.89 crore in FY2020 and Rs.83.15 crore FY2019. This was due to the current unprecedented time of Covid-19 pandemic. The company caters to Big Brands such as Lifestyle, Shopper's Stop etc. and operations of these companies were impacted as the malls were shut down for more than 8-9 months. Also the major decline in FY2020 was due to the closure of some non-performing stores across India. Further, the company registered operating losses in FY2021 thereby impacting the liquidity of the company.

- **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.

Rating Sensitivity

- Substantial decline in profitability levels thereby impacting group's financial risk profile
- Further Deterioration in working capital management leading to stretched liquidity

Material Covenants

None

Liquidity position – Stretched

The company has stretched liquidity marked by low net cash accruals of Rs. 4.42 crore. Gross Current Asset (GCA) days stood high at 370 days for FY2020. The firm maintains unencumbered cash and bank balances of Rs. 0.56 crore as on 31 March, 2020. The average cash credit utilization stood at per cent for the last seven months ended April 2021. The current ratio stood at 2.01 times as on FY2020. Acuité believes that the liquidity of the firm is likely to remain stretched over the medium term on account of low profitability and declining scale of operations.

Outlook: Stable

Acuité believes that PCPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and reputed clients. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	57.89	83.15
PAT	Rs. Cr.	2.59	3.73
PAT Margin	(%)	4.48	4.48
Total Debt/Tangible Net Worth	Times	1.95	2.45
PBDIT/Interest	Times	2.46	2.52

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

CARE, vide its press release dated September 30, 2019 has denoted the rating of Peppermint Clothing Private Limited as 'CARE BB-/Stable/A4; ISSUER NOT-COOPERATING' on account of lack of information.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Nov-2020	Cash Credit	Long Term	18.50*	ACUITE BB (Downgraded-Indicative)
	Term Loan	Long Term	0.28	ACUITE BB (Downgraded-Indicative)
	Letter of Credit	Short Term	1.67	ACUITE A4+ (Indicative)
27-Aug-2019	Cash Credit	Long Term	18.50*	ACUITE BB+/Stable (Upgraded)
	Term Loan	Long Term	0.28	ACUITE BB+/Stable (Upgraded)
	Letter of Credit	Short Term	1.67	ACUITE A4+ (Reaffirmed)
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.15.00Cr 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	19.45* (Enhanced from Rs.18.50 Cr)	ACUITE BB-/Stable (Downgraded from ACUITE BB)
Term Loan	Not Available	Not Available	Not Available	0.28	ACUITE BB- (Downgraded & Withdrawn from ACUITE BB)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00 (Reduced from Rs. 1.67 Cr)	ACUITE A4 (Downgraded from ACUITE A4+)

*Please note the total sanctioned CC limits are Rs.20.00crore.

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About Acuité Ratings & Research:

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