Press Release

Peppermint Clothing Private Limited

September 29, 2022

Rating Reaffirmed & Partly Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	0.45	-	ACUITE A4 | Reaffirmed
Bank Loan Ratings	1.00	-	ACUITE A4 | Reaffirmed & Withdrawn
Bank Loan Ratings	20.00	ACUITE BB- | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	20.45	-	-
Total Withdrawn Quantum (Rs. Cr)	1.00	-	-

Rating Rationale

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

Also, Acuite has partially withdrawn the short term rating of **'ACUITE A4' (read as ACUITE A four)** on the Rs.1.00 crore bank facilities of PCPL. The rating is being partly withdrawn on account of request received from the company and NOC received from the banker, on Acuite's policy of withdrawal of ratings.

Rationale for rating reaffirmation

The rating reaffirmation of PCPL takes into account improvement in the company's operational performance in FY2022. This recovery has been on the back of normalizing of operating environment post easing of COVID 19 restrictions. The rating also factors in the experience of the promoters and reputed clientele. The rating is however constrained by the company's working capital intensive operations and below average financial risk profile. PCPL's ability to achieve significant improvement in its scale of operations while maintaining profitability and ability to improve its working capital cycle in near to medium term will remain a key rating sensitivity.

About the Company

Maharashtra based, 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 and 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 annum.

Analytical Approach

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

Improving operating performance

PCPL reported revenues of Rs.53 Cr for FY2022 (Provisional) as against Rs.26 Cr in FY2021 and has achieved this improvement on account of increase in the number of readymade garments sold during the year as the shopping malls and various retail outlets of its clients like Shoppers Stop, Lifestyle International, Central Mall amongst others across the country started operating at full capacity post relaxation in covid induced restrictions. The operating margin of the company has improved to 7.15 percent in FY2022 (Provisional) which stood negative in FY2021 as well as the losses have reduced to a greater extent in FY2022 (Provisional) as against FY2021 on account of improvement in the overall operating performance.

As on July 2022, company has achieved revenue of Rs.31 Cr and going forward it is expected that the operating performance will improve over the medium term and will reach at pre-covid levels since the growth is sustainable with more number of sales taking place especially in Q3 and Q4 of the year when the various brand outlets across all the cities announce their winter & summer season sale that offers huge discounts on the apparels to the customers.

Acuité believes that the ability of PCPL to achieve significant improvement in its scale of operations while improving its profitability margin in near to medium term will remain a key rating sensitivity factor.

Weaknesses

Below average financial risk profile

Financial risk profile of PCPL is below average marked by low networth, moderate gearing and low debt protection metrics. The networth of the company has marginally improved to Rs.13 Cr as on 31 March, 2022 (Provisional) as against Rs.12 Cr as on 31 March, 2021 on account of moderate accretion to reserves. The gearing (debt-equity) has marginally improved to 3.01 times as on 31 March, 2022 (Provisional) as against 3.10 times as on 31 March, 2021. The gearing of the company is however expected to improve and remain low over the medium term on account of absence of any debt funded capex plans in the future. The total debt of Rs.39 Cr as on 31 March, 2022 (Provisional) consists of long term bank borrowings of Rs.3 Cr, unsecured loans from directors of Rs.15 Cr and short term working capital limit of Rs.21 Cr.

The interest coverage ratio and DSCR both stood at same level of 1.25 times for FY2022 (Provisional) on account of absence of any current maturities of the existing long-term debt. The Net Cash Accruals to Total debt stood lower at 0.02 times for FY2022 (Provisional). The Total outside liabilities to Tangible net worth stood high at 4.07 times for FY2022 (Provisional) as against 3.84 times for FY2021.

Acuite expects PCPL's financial risk profile to improve in the near to medium term because of its improving operating performance visible in FY2022 as well as in the current year FY2023 as on July 2022 and expected to maintain the trend further.

Working capital intensive operations
The operations of PCPL are working capital intensive marked by its Gross Current Assets (GCA) of 377 days for FY2022 (Provisional) as against 717 days for FY2021. This is primarily on account of its high receivable days which stood at 238 days in FY2022 (Provisional) as against 354 days in FY2021. The receivable cycle of the company is high as ~49 percent of the pending collection falls under the period of 90-180 days which is affected due to the closure of outlets across the country of one of its key clients. On the other hand, inventory cycle of the company has improved and stood at 148 days in FY2022 (Provisional) as against 286 days in FY2021 on account of improvement in sale of finished goods. Creditors cycle stood at 190 days in FY2022 (Provisional) as against 151 days in FY2021.

Acuité believes that ability of PCPL to improve its working capital cycle in near to medium term will remain a key rating sensitivity factor.

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 Sensitivities

- Ability to achieve significant improvement in the scale of operations while maintaining profitability margin
- Ability to improve the working capital cycle

Material covenants
None

Liquidity position - Stretched
PCPL has stretched liquidity position marked by low net cash accruals (NCA) against no maturing debt obligations. The company generated cash accruals in the range of Rs.4 Cr to Rs.0.79 Cr during FY2020 to FY2022 (Provisional) against no repayment obligation during the same period. Going forward the NCA are expected to be healthy in the range of Rs.6 Cr – Rs.7 Cr for period FY2023-FY2024 against repayment obligation of ~Rs.1.20 Cr for the same period. The working capital operations of the company are intensive marked by its gross current asset (GCA) days of 377 days for FY2022 (Provisional) as against 717 days for FY2021 on account of high receivables cycle during the same period. The average bank limit utilization for 6 months' period ended June 2022 stands fully utilised. Current ratio stands at 1.67 times as on 31 March 2022 (Provisional).

Acuité believes that the liquidity of the PCPL is likely to improve over the medium term on account of generating healthy cash accruals against its debt obligations.

Outlook: Stable
Acuité believes that PCPL will maintain a 'Stable' outlook in near to medium term on account of its experienced management and improving operating performance. The outlook may be revised to 'Positive' if the company is able to achieve higher than expected growth in revenue while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to negative in case of lower than improvement in scale of operations or any elongation in working capital cycle leading to moderation in liquidity profile.

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	52.97	25.91
PAT	Rs. Cr.	(0.84)	(7.52)
PAT Margin	(%)	(1.59)	(29.04)
Total Debt/Tangible Net Worth	Times	3.01	3.10
PBDIT/Interest	Times	1.25	(1.07)

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

CARE, vide its press release dated November 26, 2021 has denoted the rating of PCPL as 'CARE B+/Stable/A4; Downgraded & Issuer not co-operating on account of lack of information.

Any other information

None

Applicable Criteria

- Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Jul 2021	Letter of Credit	Short Term	1.00	ACUITE A4 (Downgraded from ACUITE A4+)
	Term Loan	Long Term	0.28	ACUITE BB- (Withdrawn)
	Cash Credit	Long Term	19.45	ACUITE BB- | Stable (Downgraded from ACUITE BB)
05 Nov 2020	Term Loan	Long Term	0.28	ACUITE BB (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	18.50	ACUITE BB (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	1.67	ACUITE A4+ (Issuer not co-operating*)
27 Aug 2019	Letter of Credit	Short Term	1.67	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	18.50	ACUITE BB+ | Stable (Upgraded from ACUITE BB | Stable)
	Term Loan	Long Term	0.28	ACUITE BB+ | Stable (Upgraded from ACUITE BB | Stable)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BB- | Stable | Reaffirmed
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 | Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.45	ACUITE A4 | Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.