

Press Release

Armani Industries (India) Private Limited

June 26, 2019



Rating Downgraded and Assigned

Total Bank Facilities Rated*	Rs. 31.20 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB-/Stable)
Short Term Rating	ACUITE A4 (Downgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating of '**ACUITE B+** (read as ACUITE B plus) from '**ACUITE BB-**' (read as ACUITE double B minus) and short-term rating of '**ACUITE A4**' (read as ACUITE A four) from '**ACUITE A4+**' (read as ACUITE A four plus) on the Rs. 19.18 crore bank facilities of Armani Industries (India) Private Limited (AIPL). The outlook is '**Stable**'.

Further, Acuité has assigned long-term rating of '**ACUITE B+** (read as ACUITE B plus) on the Rs.12.02 crore bank facilities of AIPL. The outlook is '**Stable**'.

The rating revision is on account of deterioration in the business risk profile and elongation in working capital cycle. The revenues are volatile as revenues dropped to Rs.47.00 crore for FY2019 (provisional) as against Rs.73.51 crore for FY2018 and Rs.63.85 crore for FY2017. Further, the rating also factors in increased gross current assets (GCA) to about 179 days in FY2018 as against 125 days in FY2017.

Incorporated in 2012, AIPL is a Mumbai-based company promoted by Mr. Ramavtar Goyal and family. The company is engaged in exporting of fabric (shirting & suiting) to countries such as Egypt, Dubai, Africa and Afghanistan among others. AIPL took over the business of Armani Exports, a partnership firm.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of AIPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

The Goyal family has been in the textile business for the past three decades. Before promoting AIPL, the promoters used to export high quality fabric under the partnership firm 'Armani Exports' for more than a decade. Mr. Ramavtar Goyal has an industry experience of more than three decades in textile industry. Currently, the day to day operations are managed by Mr. Manish Goyal and Mr. Ravi Goyal who possess experience of nearly two decades in this industry. Acuité believes that AIPL will benefit from experienced management which will help the firm to maintain long standing relations with its customers and suppliers.

Weaknesses

• Modest scale of revenues with fluctuating margins

AIPL has modest scale of operations marked by operating income of Rs.73.51 crore in FY2018 as against Rs.63.85 crore in FY2017 and Rs.90.79 crore in FY2016. The company has booked revenue of Rs.47.00 crore for FY2019 (Provisional). Intense competition, fluctuating cost of raw materials and rupee-dollar movement have significantly impacted the profitability and also resulted in volatile revenue trend. AIPL's net and operating margins have shown a fluctuating trend with 9.84 percent in FY2018 as against 15.50 and 9.26 percent respectively in FY2017 and FY2016. Acuité believes that the

company's ability to register significant growth in its revenues while improving its profitability are key rating sensitivity factors over the medium term.

• Moderate financial risk profile

The financial risk profile of the company is moderate marked by tangible net worth of Rs.19.07 crore as on 31 March, 2018 as against Rs.17.54 crore in the previous year. The gearing stood moderate at 1.25 times as on 31 March, 2018 as against 0.91 times in the previous year. The total debt of Rs.23.89 crore includes term loan from bank of Rs.5.40 crore, working capital borrowings of Rs.15.84 crore and unsecured loan of Rs.2.64 crore. Interest Coverage Ratio (ICR) stood at 2.70 times in FY2018 as against 2.97 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.89 times as on 31 March, 2018 as against 1.47 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.15 times in FY2018 compared to 0.30 times in FY2017. Going forward, Acuité believes that the company's ability to improve its net worth along with debt protection metrics will remain key sensitivity.

Liquidity Position:

The company has adequate liquidity marked by its net cash accruals as compared to its maturing debt obligations. AIPL generated cash accruals of Rs.3.6-4.75 crore during the last three years through 2017-18, while the maturing debt obligations were Rs.2.20 crore over the same period. The cash accruals are estimated to remain around Rs.3.5-5.0 crore during 2019-21 with repayment obligations of Rs.2.2 crore over the same period. AIPL maintains cash and bank balances of Rs.0.06 crore as on March 31, 2018. The current ratio is moderate at 1.23 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate accruals and no major capex over the medium term.

Outlook: Stable

Acuité believes that AIPL's outlook will remain 'Stable' over the medium term from its experienced management. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues while improving its profitability. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	73.51	63.85	90.79
EBITDA	Rs. Cr.	7.23	9.89	8.41
PAT	Rs. Cr.	1.07	1.75	1.43
EBITDA Margin	(%)	9.84	15.50	9.26
PAT Margin	(%)	1.45	2.74	1.58
ROCE	(%)	12.95	14.26	14.21
Total Debt/Tangible Net Worth	Times	1.25	0.91	1.12
PBDIT/Interest	Times	2.70	2.97	2.10
Total Debt/PBDIT	Times	3.19	2.05	2.10
Gross Current Assets (Days)	Days	179	125	108

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/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
13-Apr-2018	Cash Credit	Long Term	2.00	ACUITE BB- / Stable (Reaffirmed)
	Term Loan	Long Term	14.20	ACUITE BB- / Stable (Reaffirmed)
	Packing Credit	Short Term	15.00	ACUITE A4+ (Reaffirmed)
15-Feb-2017	Cash Credit	Long Term	2.00	ACUITE BB- / Stable (Reaffirmed)
	Term Loan	Long Term	14.20	ACUITE BB- / Stable (Reaffirmed)
	Packing Credit	Short Term	15.00*	ACUITE A4+ (Reaffirmed)
07-Jan-2016	Cash Credit	Long Term	2.00	ACUITE BB- / Stable (Upgraded from ACUITE B/Stable)
	Term Loan	Long Term	14.20	ACUITE BB- / Stable (Upgraded from ACUITE B/Stable)
	Packing Credit	Short Term	15.00*	ACUITE A4+ (Upgraded from ACUITE A4)
06-Apr-2015	Cash Credit	Long Term	2.00	ACUITE B / Stable (Assigned)
	Term Loan	Long Term	14.20	ACUITE B / Stable (Assigned)
	Packing Credit	Short Term	15.00*	ACUITE A4 (Assigned)

*Includes Forward contract as a sublimit to the extent of Rs.2.25 crore

***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	2.00	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.18	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
PCFC	Not Applicable	Not Applicable	Not Applicable	15.00*	ACUITE A4 (Downgraded from ACUITE A4+)
Proposed Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	12.02	ACUITE B+/Stable (Assigned)

*PCFC of Rs.15.00 crore includes sublimit FDBP to the extent of Rs.15.00 crore

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About Acuité Ratings & Research:

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