

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 ACUITEBB-/Stable) |
| Short Term Rating | ACUITE A4 (Downgraded from ACUITE A4+) |

* Refer Annexure for details

Rating Rationale

Acuite 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, Acuite 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

Acuite 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 use 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. Acuite 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. Acuite 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, Acuite 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. Acuite 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

Acuite 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

Acuite 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

Contacts

| Analytical | Rating Desk |
|--|---|
| <p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuите.in</p> <p>Grishma Muni Analyst - Rating Operations Tel: 022-49294075 grishma.muni@acuiteratings.in</p> | <p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuите.in</p> |

About Acuite Ratings & Research:

Acuite Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuite.