

Press Release

INDURO LIFESTYLE RESOURCES PRIVATE LIMITED

April 22, 2019

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 23.87 Cr. (Enhanced from Rs.19.05 crore)
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.19.05 crore and assigned a rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.4.82 crore bank facilities of INDURO LIFESTYLE RESOURCES PRIVATE LIMITED (ILPL). The outlook is '**Stable**'.

The rating re-affirmation reflects stable business risk profile, reputed clientele and experienced promoters in the apparel industry. The revenues are stable at around Rs.75 crore over the past three years through FY2018 and the revenues are estimated at similar levels for FY2019, though stagnant. It is owing to reduced exposure to one of its vintage client, and building new relationship. ILRPL's clientele include Arvind Fashions Limited, Aditya Birla Fashions and VF Brands India Private Limited, among others. However, the ratings are constrained by below-average financial risk profile and working capital intensive operations.

ILPL was incorporated in 2008 by Mr. Kishan Kumar. At present, the company is managed by Mr. Kishan Kumar and Mrs. Panna Kishen Jain. The company is engaged in manufacturing of denim and non-denim bottoms for men, women and kids. The company has two manufacturing units and a washing unit in Bangalore. The unit I has size of around 40,000 sq. Ft. and unit II of 4,000 sq. ft. The installed production capacity of the ILPL is around 15,00,000 units per annum, whereas it is utilised at about 82 per cent in FY2019. The Company's products are sold under the brand names of Lee, Wrangler, US Polo, Flying Machine, Ed Hardy, Cherokee, Vee Dot, and Louis Phillipe.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of ILPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experience of promoters in the apparel industry

The promoters possess around thirteen years of experience in the apparel manufacturing industry in the field of handling production and exports for reputed brands. It features among one of the organised manufacturers of denim and non-denim bottoms for women, men and kids. ILPL caters to large renowned customers such as VF Brands India Private Limited, Aditya Birla Fashions, Arvind Fashions Limited, among others. The Company's products are sold under the brand name of Lee, Wrangler, US Polo, Flying Machine, Ed Hardy, Cherokee, Vee Dot, and Louis Phillipe. Previously, VF Brands was the major revenue contributor for ILPL with a revenue concentration of about 70 per cent; however, over the past two years through FY2018, this is offset by higher revenue contribution from Arvind and Aditya Birla group. However, Acuite believes that the industry experience and domain knowledge of the management are expected to support in improving its business risk profile over the medium term.

Weaknesses

• Below average financial risk profile

The financial risk profile is marked by high gearing (debt to equity), high total outside liabilities to total net-worth (TOL/TNW), and below-average debt protection metrics. The gearing is high at 3.65 times as on March 31, 2018 against 3.12 times as on March 31, 2017. TOL/TNW is also high at about 5.39 times in FY2018 compared to 4.39 times in FY2017; deterioration is owing to high debt levels. The net worth is modest at Rs.6.65 crore as on March 31, 2018 as against Rs.6.45 crore as on March 31, 2017, an increase by Rs.0.20 crore owing to accretion to reserves. Of the total debt of Rs.24.27 crore, unsecured loans from promoters constitute Rs.2.90 crore, short term debt of Rs.17.32 crore and long term debt of Rs.4.05 crore.

The Company incurred a capital expenditure of Rs.5.37 crore for setting up a washing plant in 2017, which has gained synergies from FY2019. The capacity for the unit is around 4000 pieces per day. Going forward, the Company has planned no significant capital expenditure. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are below average at 1.41 times and 0.06 times respectively in FY2018. Net cash accruals for FY2018 stood at Rs.1.49 crore; further, the company's cash accruals are expected to be in the range of Rs.2.00-2.50 crore with repayment obligations amounting to Rs.1.00-1.20 crore, for the period of FY2019-21; however, increasing GCA days and working capital intensive operations are expected to absorb the liquidity cushion and thereby, financial risk profile continues to be at similar levels over the medium term.

• Working capital intensive operations

Operations of the company are working capital intensive marked by high gross current assets (GCA) at 154 days in FY2018 as against 114 days in FY2016. This is on account of stretch in inventory and receivable cycle to 105 and 30 days in FY2018 as against 82 and 18 days in FY2017. The increasing GCA is partly owing to addition of new clientele to reduce client concentration, more number of brands causing to maintain higher inventory and the revised credit terms. This leads to high utilisation of its bank lines at about 97 per cent over last six months through March 2019; also, its current ratio is low at about 1.08 times as of March 31, 2018. Acuité believes that with expected increase in scale of operations at marginal levels, the operations continue to be working capital intensive.

Liquidity Position:

Liquidity profile of ILPL is stretched reflected by high bank line utilisation. ILPL has reported cash accruals of Rs.1.49 crore in FY2018. It is expected to generate cash accruals in the range of Rs.2.00-2.50 crore over the medium term, against which its repayment obligations are about Rs.1.00-1.50 crore and regular annual capex of about Rs.0.30-0.50 crore. However, working capital intensive operations are expected to weigh on the liquidity. Its working capital limits are highly utilised about 97 per cent for the last six months through March 2019. Acuité believes that moderate working capital intensive operations and modest net worth are expected to constrain the liquidity.

Outlook: Stable

Acuité believes that ILPL will maintain a 'Stable' outlook over the medium term and benefit from its experienced management. The outlook may be revised to 'Positive' in case ILPL registers substantial growth in its revenues and profitability while improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	76.77	70.88	74.59
EBITDA	Rs. Cr.	4.74	5.00	5.70
PAT	Rs. Cr.	-0.33	0.30	0.77
EBITDA Margin	(%)	6.18	7.05	7.64
PAT Margin	(%)	-0.43	0.42	1.04
ROCE	(%)	10.35	17.20	42.60
Total Debt/Tangible Net Worth	Times	3.65	3.12	2.70
PBDIT/Interest	Times	1.41	1.27	1.57
Total Debt/PBDIT	Times	5.06	4.01	2.90
Gross Current Assets (Days)	Days	154	128	114

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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 (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
24-Jan-2019	Cash Credit	Long Term	12.65	ACUITE BB-Issuer not co-operating*
	Term Loan I	Long Term	0.57	ACUITE BB-Issuer not co-operating*
	Term Loan II	Long Term	0.11	ACUITE BB-Issuer not co-operating*
	Term Loan III	Long Term	2.72	ACUITE BB-Issuer not co-operating*
	Bill Discounting	Short Term	3.00	ACUITE A4+ Issuer not co-operating*
27-Nov-2018	Cash Credit	Long Term	12.65	ACUITE BB-/Stable (Reaffirmed)
	Term Loan I	Long Term	0.57	ACUITE BB-/Stable (Reaffirmed)
	Term Loan II	Long Term	0.11	ACUITE BB-/Stable (Reaffirmed)
	Term Loan III	Long Term	2.72	ACUITE BB-/Stable (Assigned)
	Standby Line of Credit	Short Term	1.65	ACUITE A4+ (Withdrawn)
	Bill Discounting	Short Term	3.00	ACUITE A4+

				(Assigned)
03-Mar-2016	Cash Credit	Long Term	11.00^	ACUITE BB-/Stable (Assigned)
	Term Loan	Long Term	2.82	ACUITE BB-/Stable (Assigned)
	Standby Line of Credit	Short Term	1.65	ACUITE A4+ (Assigned)

^Includes sub-limit of Letter of Credit of Rs.3.00 crore and Bank Guarantee of Rs.3.00 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	14.65	ACUITE BB-/Stable (Reaffirmed)
EDFS	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB-/Stable (Assigned)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	0.06	ACUITE BB-/Stable (Reaffirmed)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	0.11	ACUITE BB-/Stable (Reaffirmed)
Term Loan III	Not Applicable	Not Applicable	Not Applicable	2.30	ACUITE BB-/Stable (Reaffirmed)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Reaffirmed)
Line of Credit	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE A4+ (Assigned)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB-/Stable (Assigned)

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-40055452 bhavanisankar.oruganti@acuiterratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité 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.

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