

Press Release

Facctum Wears

February 14, 2019



Rating Downgraded and Reaffirmed

Total Bank Facilities Rated*	Rs. 9.70 Cr. (Enhanced from Rs.6.10 crore)
Long Term Rating	ACUITE BB- / Outlook: Stable (Downgraded from ACUITE BB)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating from '**ACUITE BB**' (read as ACUITE double B) to '**ACUITE BB-**' (read as ACUITE double B minus) to the Rs.8.70 crore bank facilities and reaffirmed the short term rating to '**ACUITE A4+**' (read as ACUITE A four plus) to the Rs. 1.00 crore bank facilities of Facctum Wears (FW). The outlook is '**Stable**'.

Facctum Wears was established as a partnership firm in 1996. The firm is engaged in the business of manufacturing of knitted garments. The firm caters to reputed customers like Reliance Trends It also manufactures its garments under their own brand name 'FW'. The firm also exports garments to countries like France and Sweden. The firm holds 7 well-equipped manufacturing production units at Tirupur.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management with long track record of operations

Facctum Wears (FW) was established in the year 1996 by Mr. T Lakshmanan and Mr. K A Rengadurai. The partners have more than two decades of experience in manufacturing of ready-made garments. Acuité believes that the experience of the management will help the firm in maintaining long standing relations with customers and suppliers.

• Moderate financial risk profile

The financial risk profile is moderate marked by moderate net worth and debt protection measures and low gearing. The net worth of the company is moderate at Rs.6.24 crore as on 31 March, 2018 as against Rs.5.62 crore as on 31 March, 2017. The company has followed a moderately aggressive financial policy as reflected by peak gearing of 2.09 times over the last three years through 2017-18. The gearing of the company has further stood at 2.09 times as on March 31, 2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.37 times as on 31 March, 2018 as against 2.02 times as on 31 March, 2017. The healthy revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) remained moderate at 3.33 times in FY2018 and 3.75 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.18 times as on 31 March, 2018 as against 0.36 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 3.33 times for FY2018 as against 3.75 times in FY2017. Acuité believes that the financial risk profile of FW will continue to remain moderate over the medium term on account of its improving scale of operations.

Weaknesses

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- **Modest scale of operations**

FW has been in the readymade garment business since it was established in 1996. The company has still managed to record modest revenue of Rs.38.23 crore for FY2018. Further, the revenue is expected to decline in FY2019 on account of reduced demand induced due to client concentration risk that the firm faces. 40 percent of the revenue booked comes from a single client. This increases the firm's dependency and reduces their strength to negotiate for better margins. Hence, the ability of the company to keep growing year on year while keeping sustainable margin levels will be a key rating sensitivity factor in the future.

- **Presence in competitive readymade garments business**

FW faces stiff competition from a large number of players in the readymade garment business segment. Garments manufactured by Facctum Wears are sold through the distribution channel of 50 distributors. The online market players also pose a major threat to the entire garment market. The extensive discounts offered and convenience in online shopping with early delivery and easy cash payment facilities proves to be a major hurdle to readymade garment business. Acuité believes that the ability of the firm to increase their sales in such competition from local, regional and international players will be an important factor in the near to medium future.

Outlook: Stable

Acuité believes that FW will maintain a 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in FW's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening its capital structure and debt protection metrics.

Liquidity Position

Facctum Wears has weak liquidity marked by low net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.1.75 to 2.50 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs. 1.00 – 1.20 crore over the same period. The cash accruals of the firm are estimated to remain around Rs.1.70 – 2.70 crore during 2019-21 while its repayment obligations are estimated to be around Rs. 1.10 – 1.30 crore. FW's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 208 in FY2018. This has led to increased reliance on working capital borrowings, the cash credit limit in the group remains utilized at 98 – 100 percent during the last 12 months period ended December 2018. The group maintains unencumbered cash and bank balances of Rs.0.33 crore as on March 31, 2018. The current ratio of the firm stands healthy at 1.6 times as on March 31, 2018. FW is not likely to incur capex over the medium term. Acuite believes that the liquidity of the firm is likely to remain weak over the medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	38.23	31.52	27.09
EBITDA	Rs. Cr.	3.39	2.69	2.20
PAT	Rs. Cr.	1.87	1.78	1.53
EBITDA Margin	(%)	8.88	8.52	8.13
PAT Margin	(%)	4.89	5.65	5.64
ROCE	(%)	19.06	24.38	42.81
Total Debt/Tangible Net Worth	Times	2.09	0.98	1.09
PBDIT/Interest	Times	3.33	3.75	4.56
Total Debt/PBDIT	Times	3.81	2.01	2.17
Gross Current Assets (Days)	Days	208	148	128

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
07-Aug-2018	Cash Credit	Long Term	3.50	ACUITE BB (Indicative)
	Packing Credit	Short Term	0.75	ACUITE A4+ (Indicative)
	Post Shipment Credit	Short Term	0.25	ACUITE A4+ (Indicative)
	Proposed Long Term Loan	Long Term	1.00	ACUITE BB (Indicative)
	Proposed Working Capital Demand Loan	Long Term	0.60	ACUITE BB (Indicative)
08-Nov-2016	Cash Credit	Long Term	3.50	ACUITE BB / Stable (Assigned)
	Packing Credit	Short Term	0.75	ACUITE A4+ (Assigned)
	Post Shipment Credit	Short Term	0.25	ACUITE A4+ (Assigned)
	Proposed Long Term Loan	Long Term	1.00	ACUITE BB / Stable (Assigned)
	Proposed Working Capital Demand Loan	Long Term	0.60	ACUITE BB / Stable (Assigned)

*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	8.70	ACUITE BB-/ Stable (Downgraded from ACUITE BB)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE A4+ (Reaffirmed)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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