

## Press Release

### Facctum Wears

October 18, 2019



### Rating Downgraded

<b>Total Bank Facilities Rated*</b>	Rs. 9.70 Cr.
<b>Long Term Rating</b>	ACUITE D (Downgraded from ACUITE BB-/Stable)
<b>Short Term Rating</b>	ACUITE D (Downgraded from ACUITE A4+)

\* Refer Annexure for details

### Rating Rationale

Acuité has downgraded the long-term rating of 'ACUITE BB-' (read as ACUITE double B minus) to 'ACUITE D' (read as ACUITE D) and the short-term rating of 'ACUITE A4+' (read as ACUITE A four plus) to 'ACUITE D' (read as ACUITE D) on the Rs. 9.70 crore bank facilities of FACCTUM WEARS (FW).

The downgrade is reflected by irregularities in banking conduct.

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 Facctum Wears.

### 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.

#### Weaknesses

- **Delays in debt servicing**

There has been a delay due to overdrawings in cash credit facility for more than 30 days.

- **Deterioration in scale of operations and profitability**

The firm has reported moderate decline in revenue with compounded annual growth rate (CAGR) of around negative~0.17 percent through the last three years ended 31 March, 2019 (Provisional). The firm reported decline in revenue of ~17.84 percent with operating income of Rs.31.41 crore in FY2019 (Provisional) as against operating income of Rs.38.23 crore in FY2018. The operating margins of the firm marginally declined to 8.68 percent in FY2019 (Provisional) from 8.88 percent in FY2018. Further, Profit after Tax (PAT) margins declined to 1.61 per cent in FY2019 (Provisional) from 4.89 percent in FY2018.

- **Average financial risk profile**

The financial risk profile is average marked by modest net worth and moderate debt protection measures and high gearing. The net worth of the firm is modest at Rs.6.68 crore as on 31 March 2019 (Provisional) as against Rs.6.24 crore as on 31 March 2018. Though the gearing (debt to equity) of the firm has improved, it stood at 1.57 times as on March 31 2019 (Provisional) as against 2.09 times as on March 31 2018. Total debt of Rs.10.48 crore consists of term loan of Rs.0.84 crore and working capital facility of Rs.9.64 crore as on 31 March 2019 (Provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.53 times as on 31 March 2019 (Provisional) as against 3.37 times as on 31 March 2018. Interest Coverage Ratio (ICR) deteriorated to 1.59 times in FY2019 (Provisional) from 3.33 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.10 times as on 31 March 2019 (Provisional) as against 0.18 times as on 31 March 2018. Debt Service Coverage Ratio (DSCR) deteriorated to 1.59 times in FY2019 (Provisional) from 3.33 times in FY2018.

- **Intensive working capital operations**

The working capital of FW is intensive in nature marked by high Gross Current Asset (GCA) days of 211 for FY2019 (Provisional) as against 208 in the previous year. This is on account of high inventory days which stood at 129 for FY2019 (Provisional) as against 102 for FY2018, further debtor days stood at 52 in FY2019 (Provisional) as against 85. The reliance on working capital facility is high, it is fully utilized on an average for last 6 months ending September, 2019. Going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

- **Customer concentration risk**

The firm faces high customer concentration risk. Its major customer is Reliance Trends, who accounted for ~40 percent of its sales in the last three years' period ended FY2019. Further, the high customer concentration renders the revenue growth and profitability susceptible to the growth plans, procurement and credit policies of its key customers.

**Liquidity Position:**

FW has stretched liquidity. The firm's operations are working capital intensive as marked by high gross current asset (GCA) days of 211 in FY2019 (provisional). This has led to higher reliance on working capital borrowings, the cash credit limit in the firm remains fully utilized during the last 6 months' period ended September, 2019. The firm maintains unencumbered cash and bank balances of Rs.0.07 crore as on March 31, 2019 (provisional). The current ratio of the firm stood at 1.13 times as on March 31, 2019 (provisional).

Acuité believes that the liquidity of the firm will remain stretched due to time taken by reliance trends to release the payments i.e. more than 90 days. Also firm faces customer centric risk due to major portion of revenues i.e. 40 per cent been generated from reliance trends.

**About the Rated Entity - Key Financials**

	Unit	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	31.41	38.23	31.52
EBITDA	Rs. Cr.	2.73	3.39	2.69
PAT	Rs. Cr.	0.51	1.87	1.78
EBITDA Margin	(%)	8.68	8.88	8.52
PAT Margin	(%)	1.61	4.89	5.65
ROCE	(%)	12.19	19.06	24.38
Total Debt/Tangible Net Worth	Times	1.57	2.09	0.98
PBDIT/Interest	Times	1.59	3.33	3.75
Total Debt/PBDIT	Times	3.84	3.81	2.01
Gross Current Assets (Days)	Days	211	208	148

**Any other information**

Not Applicable

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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 (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14th Feb 19	Cash Credit	Long Term	8.70	ACUITE BB/Stable (Downgraded from ACUITE BB/Stable)
	Packing Credit	Short Term	0.75	ACUITE A4+ (Reaffirmed)
	Post Shipment Credit	Short Term	0.25	ACUITE A4+ (Reaffirmed)
7th Aug 18	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)
8th Nov 16	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 D (Downgraded from ACUITE BB-/Stable)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE D (Downgraded from ACUITE A4+)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE D (Downgraded from ACUITE A4+)

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**About Acuité Ratings & Research:**

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