

Press Release

Facctum Wears

May 30, 2022



Rating Downgraded and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.00	-	ACUITE A4 Reaffirmed
Bank Loan Ratings	8.70	ACUITE C Downgraded	-
Total Outstanding Quantum (Rs. Cr)	9.70	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE C**' (read as **ACUITE C**) from '**ACUITE B**' (read as **ACUITE B**) and reaffirmed short term rating to '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.9.70 crore bank facilities of Facctum Wears (FW).

Rationale for Downgrade

The rating has been downgraded on account of frequent delays in servicing of debt in past few months, deterioration in working capital management and decline in scale of operations. The company has delayed in servicing of debt obligations in the recent past however as per banker the amount has been recovered and the account has been recently classified as "Standard". GCA days have escalated on account of increase in inventory and debtor period. Revenue has declined along with profitability margins.

About the Company

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

Acuite has considered the standalone financial and business risk profile of FW to arrive at the rating.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

Facctum Wears (FW) was established in the year 1996 by its partners, Mr. T Lakshmanan and Mr. K A Rengadurai. The partners have more than two decades of experience in manufacturing of readymade garments. Firm has been able to maintain healthy relations with its customers and suppliers. Acuite believes that the experience of the management will continue to benefit the firm in maintaining long standing relations with customers and suppliers.

Weaknesses

Average financial risk profile

The financial risk profile of the company is average marked by modest net worth, moderate gearing and coverage indicators. The net worth in FY 2021 stood at Rs. 6.55 Cr as against Rs. 6.92 Cr in FY 2020 due to drawings from partners' capital account. Debt to Equity ratio moderated to 2.25 times in FY 2021 from 1.68 times in FY 2020 due to increase in total debt. The total debt of Rs. 14.77 Cr consists of Rs. 0.11 Cr of Unsecured loans and Rs. 14.66 Cr of working capital borrowings. Coverage indicators remained moderate with Interest coverage ratio (ICR) moderating from 1.90 times in FY 2020 to 1.70 times in FY 2021. Financial risk profile is expected to remain average with slight deterioration going forward.

Working Capital Management

The operations of the company are working capital intensive marked by GCA days of 269 in FY 2021. The stretch in GCA days was a result of stretch in inventory holding period and debtor realization period. Inventory days have moderated from 123 days in FY 2020 to 140 days in FY 2021 and as per YTD estimates provided have further stretched to 155 days. The elongation of inventory holding was on account of dip in demand because of Covid 19 induced pandemic wherein the inventory of raw materials were not utilized because of diminished demand. The debtor period also stretched from 81 days in FY 2020 to 111 days in FY 2021 due to disruptions caused by Corona. Creditor period has also witnessed growth from 237 days in FY 2020 to 245 days in FY 2021. Due to the working capital intensive nature of operations the company's reliance on short term borrowing has increased. In 2021 short term debt stood at Rs. 14.66 Cr. The company has cash credit facility with sanctioned limit of Rs. 8.00 Cr and the utilization in the account between April 2021 and March 2022 stood at 103.36%.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability.
- Stretch in working capital cycle and deterioration in liquidity position.

Material covenants

None.

Liquidity Position: Stretched

The liquidity of the company is stretched demonstrated by delays in repayments of obligations in the recent past. As per the banker's feedback the company has been specified as SMA 0, SMA 1 and SMA 2 in the past months due to the delays in repayments in Cash credit facility and GECL facility. For FY 2022 and FY 2023 the Net cash accruals is expected to be around Rs. 0.80 Cr and 0.96 Cr against maturing debt obligation of Rs. 0.41 Cr for each respective year. The company had cash and bank position of Rs. 0.24 Cr in FY 2021 and the current ratio for the fiscal stood at 1.08 times.

Outlook: Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	36.94	37.85
PAT	Rs. Cr.	0.63	0.91
PAT Margin	(%)	1.70	2.41
Total Debt/Tangible Net Worth	Times	2.25	1.68
PBDIT/Interest	Times	1.70	1.90

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

Not Applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Mar 2021	Post Shipment Credit	Short Term	0.25	ACUITE A4 (Upgraded from ACUITE D)
	Packing Credit	Short Term	0.75	ACUITE A4 (Upgraded from ACUITE D)
	Cash Credit	Long Term	8.70	ACUITE B Stable (Upgraded from ACUITE D)
04 Jan 2021	Packing Credit	Short Term	0.75	ACUITE D (Issuer not co-operating*)
	Post Shipment Credit	Short Term	0.25	ACUITE D (Issuer not co-operating*)
	Cash Credit	Long Term	8.70	ACUITE D (Issuer not co-operating*)
18 Oct 2019	Packing Credit	Short Term	0.75	ACUITE D (Downgraded from ACUITE A4+)
	Cash Credit	Long Term	8.70	ACUITE D (Downgraded from ACUITE BB- Stable)
	Post Shipment Credit	Short Term	0.25	ACUITE D (Downgraded from ACUITE A4+)
14 Feb 2019	Cash Credit	Long Term	8.70	ACUITE BB- Stable (Downgraded from ACUITE BB)
	Packing Credit	Short Term	0.75	ACUITE A4+ (Reaffirmed)
	Post Shipment Credit	Short Term	0.25	ACUITE A4+ (Reaffirmed)
07 Aug 2018	Cash Credit	Long Term	3.50	ACUITE BB (Issuer not co-operating*)
	Packing Credit	Short Term	0.75	ACUITE A4+ (Issuer not co-operating*)
	Post Shipment Credit	Short Term	0.25	ACUITE A4+ (Issuer not co-operating*)
	Proposed Long Term Loan	Long Term	1.00	ACUITE BB (Issuer not co-operating*)
	Proposed Working Capital Demand Loan	Long Term	0.60	ACUITE BB (Issuer not co-operating*)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Maharashtra	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.70	ACUITE C Downgraded
Bank of Maharashtra	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE A4 Reaffirmed
Bank of Maharashtra	Not Applicable	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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