

Press Release

Accent Industries Limited

August 12, 2019

Rating Upgraded and Reaffirmed



Total Bank Facilities Rated*	Rs.10.00 Cr.
Long Term Rating	ACUITE BB/ Stable (Upgraded from ACUITE BB-/ Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) and reaffirmed the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.10.00 crore bank facilities of ACCENT INDUSTRIES LIMITED (AIL). The outlook is 'Stable'.

The rating upgrade is based on the consistent improvement in the profitability while improving its financial risk profile and sustaining efficient working capital management. The company has registered a consistent growth in the operating margins from 8.69 percent in FY2017 to 11.31 percent in FY2019. However, the rating has been constrained on account of modest scale of operations with sector concentration, though improving and consistent withdrawal / repayment of unsecured loans.

AIL is engaged in the manufacturing and trading of industrial gloves. The company was incorporated in 1992 and started commercial operations from 2004. The manufacturing facility is located at Kolhapur (Maharashtra). The company also imports specialty gloves from Germany, Italy, Malaysia and China, among other. The products are only catered to domestic market. The company is currently foraying into all kinds of industrial safety items, like head gear, eye and ear safety, among others.

Analytical Approach

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

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

AIL was incorporated in 1992. The management of the company has more than two decades of experience in the industrial glove manufacturing segment. Long presence of operations has enabled the company to establish relationships with the suppliers and customers across the country and abroad. This has also helped the company's revenue to grow at a CAGR of 5 percent from FY2017 to FY2019. Acuite believes that the company is expected to benefit from the experience of the promoters and its longstanding presence in the market.

- Reputed customer base**

The company sells its products to reputed customers including Maruti Suzuki, Tata Motors Limited and Renault India Private Limited which belong to automobile sector and Vedanta Limited which belongs to mining sector.

- Efficient working capital management**

Operations of the company have shown efficient working capital management as marked by gross current assets (GCA) at 47 days in FY2019 as against 54 days in FY2018. Improvement in the GCA is owing to improvement in the inventory management and receivable period. Inventory days stood at 61 days in FY2019 against 70 days in FY2018. The receivable period stood at 47 days for FY2019 against 54 days in FY2018. Moderate working capital operations and modest net worth led to moderate utilisation of its bank lines at about 60 per cent over the last six months through July 2019. Also, its current ratio stood healthy at about 2.02 times as of March 31, 2019. Acuite believes that the working capital operations would be efficiently managed considering efficient inventory and receivables' management.

• Improving financial risk profile

Financial risk profile of the company is comfortable marked by comfortable gearing (debt-to-equity), total outside liabilities to total net worth (TOL/TNW) as well as debt protection metrics. Gearing and TOL/TNW stood at 1.33 and 1.98 times as on 31 March, 2019 respectively; though improved from 3.14 and 4.15 times as on 31 March, 2018. Net worth is modest at Rs.7.08 crore as on 31 March, 2019 as against Rs.4.22 crore as on 31 March, 2018; improvement is owing to accretion to reserves. Of the total debt of Rs.9.44 crore as on 31 March, 2019, short term debt constitutes Rs.4.05 crore, long term debt of Rs.0.10 crore and unsecured loans from promoters amounting to Rs.5.29 crore (Rs.6.35 crore in FY2018 and Rs.10.58 crore in FY2017). Earlier they were classified as quasi equity; however, as the company has been regularly repaying the same while paying interest, the same have been reclassified as unsecured loans. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) are comfortable at 4.21 times and 0.36 times respectively in FY2019. The company reported cash accruals of Rs.3.41 crore for FY2019. Further, repayment obligations are miniscule of less than Rs.0.02 crore, against annual cash accruals of about Rs.4.00-5.00 crore. Acuite believes that the financial risk profile is expected to be comfortable in the absence of major debt funded capital expenditure.

Weaknesses

• Modest scale of revenues though improving slightly, and sector concentration

The company had a modest revenue growth from Rs.40.61 crore in FY2015 to Rs.52.41 crore in FY2019, despite their presence in the market since 2004. Also, the company majorly contributes to the automobile, sector which leads to sector concentration. Moreover, considering the recent slowdown in the automobile industry, the companies related directly or indirectly to this sector will be impacted.

• Susceptibility of profitability to volatility in raw material prices

Prices of raw cotton are stated by Government through Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with the suppliers as well. Any adverse movement of cotton prices further impacts the profitability

Liquidity Position:

Liquidity profile of ALL is adequate reflected by adequate cash accruals vis-à-vis its repayment obligations. It has reported cash accruals of Rs.3.41 crore in FY2019. It is expected to generate cash accruals in the range of Rs.4.00-6.00 crore over the medium term against which its repayment obligations are about Rs.0.02 crore. Moreover, liquidity is supported by its working capital limits which are utilised at about 60 per cent for the last six months through July 2019. The current ratio stood comfortable at 2.02 times in FY2019. Acuite believes that the liquidity profile will be supported with adequate cash accruals and efficient working capital operations.

Outlook: Stable

Acuite believes that ALL will maintain a 'Stable' outlook over the medium term on account of experienced management. The outlook may be revised to 'Positive' in case of significant improvement in revenues while maintaining the profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the financial risk profile due to any significant debt-funded capital expenditure or elongated working capital cycle.

About the Rated Entity – Key financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	52.41	46.18	47.54
EBITDA	Rs. Cr.	5.93	5.01	4.13
PAT	Rs. Cr.	2.92	1.98	0.79
EBITDA Margin	(%)	11.31	10.85	8.69
PAT Margin	(%)	5.57	4.28	1.66
ROCE	(%)	31.89	25.40	18.51
Total Debt/Tangible Net Worth	Times	1.33	3.14	0.46
PBDIT/Interest	Times	4.21	2.85	1.69
Total Debt/PBDIT	Times	1.57	2.58	1.41
Gross Current Assets (Days)	Days	112	133	133

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.htm>
- Manufacturing Sector – <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading sector- <https://www.acuite.in/view-rating-criteria-6.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
01-June-2018	Cash Credit	Long Term	7.00	ACUITE BB-/Stable (Assigned)
	Term Loan	Long Term	0.85	ACUITE BB-/Stable (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A4 (Reaffirmed)
	Proposed Cash Credit	Long Term	0.15	ACUITE BB-/Stable (Reaffirmed)
15-Mar-2018	Cash Credit	Long Term	4.70	ACUITE BB- (Indicative)
	Term Loan	Long Term	0.92	ACUITE BB- (Indicative)
	Letter of Credit	Short Term	1.50	ACUITE A4 (Indicative)
	Proposed Cash Credit	Long Term	0.88	ACUITE BB- (Indicative)
02-Feb-2017	Cash Credit	Long Term	4.70	ACUITE BB-/Stable (Assigned)
	Term Loan	Long Term	0.92	ACUITE BB-/Stable (Assigned)
	Letter of Credit	Short Term	1.50	ACUITE A4 (Assigned)
	Proposed Cash Credit	Long Term	0.88	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	7.00	ACUITE BB/Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.85	ACUITE BB/Stable (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.15	ACUITE BB/Stable (Upgraded)

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About Acuité Ratings & Research:

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