

Press Release

B S Apparel

08 July, 2017

Rating Assigned



Total Instruments Rated*	Rs.34.00 Cr
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 34.00 crore bank facilities of B S Apparel. The outlook is '**Stable**'.

BSA promoted by Mr. B. Vijayaragavan is engaged in the manufacturing and export of hosiery garments. The firm has a manufacturing capacity of 765000 units per annum. BSA's product profile comprises sportswear casual wear and under garments for men women and children. A 100 per cent export oriented unit the firm exports mainly to USA Korea New Zealand UK Dubai among others. Around 80 per cent products are made of bamboo cotton with the balance constituting a mix of bamboo and wool. Also about 60 per cent of the products constitute sportswear with the rest being UV treated wear. The firm has a solar division (2.4 MV) solar rooftop with 150KWP and wind mills with 1.5 MW. Out of the total electricity from the solar division 35 percent is used for manufacturing and the rest is sold to TNEB (Tamil Nadu Electricity Board) under a contract for 25 years. Further the firm plans to construct a wind mill in Karnataka with a capacity of 2.0 MW to cater to Karnataka State Electricity Board under a 25 years contract at a tariff of Rs.4.50 per unit.

Key Rating Drivers

Strengths

- **Experienced management and established operational track record**

BSA established in 2005 was promoted by Mr. B. Vijayaragavan. The proprietor has a diploma in fibre technology with more than two decades of experience in garments and is ably supported by a qualified second tier management. Mr. B. Arivoly (Vice President) possesses over 15 years of experience in the textile industry.

- **Healthy revenue growth**

BSA has reported healthy CAGR of 22.23 per cent for the period under study. The firm achieved revenue of Rs. 55.81 crore for FY2016-17 (Provisional) compared to Rs. 40.12 crore for FY2015-16. Further BSA has an order book value of Rs.20.45 crore as on June 2017 which provides moderate revenue visibility over the medium term.

- **Healthy and improved profitability**

The profit margins are healthy. The EBITDA margin stood at 24.86 percent in FY2016-17 (Provisional) an improvement from 12.58 per cent in FY2015-16 owing to the introduction of a high margin product (bamboo cotton and wool knitted wears) and healthy returns from the wind

mill unit. Further the net margin also stood healthy at 16.55 percent in FY2017 compared to 6.79 percent in FY2016. BSA has healthy RoCE of 31.82 percent for FY2016-17 (Provisional) an improvement from 18.72 percent in FY2015-16.

- **Healthy financial risk profile**

BSA's financial risk profile stood healthy marked by gearing of 1.22 times as on 31 March 2017 (provisional) as against 1.97 times as on 31 March 2016. The tangible net worth stands at Rs. 18.19 crore as on 31 March 2017 (Provisional) as against Rs. 8.89 crore as on 31 March 2016. The ICR (interest coverage ratio) stood at 10.46 times for FY2016-17 (provisional) as against 8.04 times for FY2015-16.

- **Comfortable liquidity position**

BSA has comfortable liquidity position. The average bank limit utilisation for six months ended March 31 2017 stood at 89 percent. The current ratio stood at 1.50 times as on 31 March 2017 (Provisional). Further the firm's working capital cycle is efficiently managed with gross current assets (GCA) of 61 days for FY2016-17 (Provisional) against 62 days for FY2015-16. This is due to debtor days of 56 days (PY: 57 days). Further the working capital cycle is negative.

- **Niche product segment**

BSA manufactures niche products such as bamboo cotton wears UV Protection Factor (UPF) wears and bamboo cotton wool wears. The UV Protection Factor (UPF) protects users from skin irritation skin diseases like eczema and avoids odour and hence are in high demand in USA. This helps the firm generate higher revenue and margins.

Weaknesses

- **Customer and geographical concentration risk**

BSA is exposed to client concentration risk as ~95 percent of the total operating income is generated from two major customers in USA viz. Tasc Performance Inc. and Coolibar Inc. The firm has been dealing with these clients since 14 years.

- **Proprietorship constitution**

BSA's financial risk profile is susceptible to inherent risk of capital withdrawal considering the proprietorship constitution of the firm. However SMERA has not observed the same during the period under study.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of the firm for arriving at the rating.

Outlook: Stable

SMERA believes BSA will maintain a stable outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher than-expected growth in revenues and profitability while maintaining comfortable liquidity position. Conversely the outlook may be revised to 'Negative' in case of decline in revenue and profit margins and deterioration in financial risk profile or its liquidity profile on account of higher than expected debt funded capex plans.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional) BSA reported profit after Tax (PAT) of Rs. 9.24 crore on operating income of Rs. 55.81 crore as against PAT of Rs. 2.72 crore on operating income of Rs. 40.12 crore in

the previous year. The net worth stood at Rs. 18.19 crore as on March 31 2017 (provisional) as against Rs. 8.89 crore in the previous year.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Complexity Level Of Financial Instruments - <https://www.smera.in/criteria-complexity-levels.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan (Proposed)	Not Applicable	Not Applicable	Not Applicable	17.00	SMERA BBB-/Stable
External Packing Credit/ Packing Credit in Foreign currency	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA A3
Term Loan - I	Not Applicable	Not Applicable	10-Dec-2018	0.16	SMERA BBB-/Stable
Term Loan – II	Not Applicable	Not Applicable	10-Dec-2018	0.20	SMERA BBB-/Stable
Term Loan – III	Not Applicable	Not Applicable	10-May-2020	0.44	SMERA BBB-/Stable
Term Loan – IV	Not Applicable	Not Applicable	10-May-2020	0.34	SMERA BBB-/Stable
Term Loan – V	Not Applicable	Not Applicable	10-Aug-2022	6.95	SMERA BBB-/Stable
Term Loan – VI	Not Applicable	Not Applicable	10-Feb-2022	0.91	SMERA BBB-/Stable

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ABOUT SMERA

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