

Press Release

B S Apparel

September 19, 2018



Rating Upgraded

Total Bank Facilities Rated*	Rs. 34.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Upgraded from ACUITE BBB- /Stable)
Short Term Rating	ACUITE A3+ (Upgraded from A3)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded its long-term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating to '**ACUITE A3+**' (**read as ACUITE A three plus**) from '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 34.00 crore bank facilities of B S APPAREL (BSA). The outlook is '**Stable**'.

The rating upgrade is driven by the improvement in operating profitability over the past two years and the expectation that the same will be sustained over the medium term driven by the addition of high margin textile products in the portfolio and the income from power segment. EBITDA margin increased to 24.58 percent in FY2017-18 (Provisional) from 12.58 percent in FY2015-16. The firm's business risk profile will continue to be supported by steady growth in revenue from textile segment over the medium term and the stable income from the power segment. The firm is also expected to maintain moderate financial risk profile with no major capital expenditure plans over the medium term and repayment of long-term debt taken for the wind mill business. This will support the improvement in the firm's capital structure over the medium term.

Established in 2005, BSA was promoted by Mr. B. Vijayaragavan as a proprietorship firm. The firm is engaged in manufacturing and export of hosiery garments. The product profile comprises of sports wears, casual wears and inner wear for men, women and children. The fabrics are made with bamboo cotton and the firm specialises in Bamboo Cotton, UV Protection Factor (UPF) and Bamboo Cotton Wool products. BSA is 100% export oriented firm, majorly exporting to countries like USA, Korea, New Zealand, UK and Dubai among others. The firm has Solar Division with 2.4 MV, Solar Rooftop with 150 KWP and Wind Mills with 5 MW. They procure 35 percent of electricity for their own consumption and rest is sold to TNEB, Tamil Nadu on contract of 25 years.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of BSA for arriving at the rating.

Key Rating Drivers:

Strengths

- Experienced management and established operational track record**

The proprietor, Mr. B. Vijayaragavan has more than two decades of experience in the garmenting business. He joined as a partner in his father's firm named 'Vinayaga Knits' in 2000. Later in 2005, the constitution of the firm was converted to proprietorship and the firm's name was changed to 'B S Apparel'. Mr. B. Arivoly (Vice President) possesses more than 15 years of business experience in the textile industry.

- Moderate financial risk profile**

BSA's financial risk profile is marked by moderate gearing (Debt to Equity) of 1.60 times as on March 31, 2018 (Provisional) as against 1.25 times as on March 31, 2017. Tangible net worth stood at Rs.23.75 crore as on March 31, 2018 (Provisional; Rs.17.08 crore as on March 31, 2017). ICR (Interest

Coverage Ratio) was 8.65 times in FY2017-18 (Provisional). Further, the profit margins are healthy - EBITDA margin increased to 24.58 percent in FY2017-18 (Provisional) from 12.58 percent in FY2015-16. The PAT margin was also healthy at 10.11 percent in FY 2017-18 (Provisional) compared to 14.33 percent in FY2016-17.

• Operations in niche product segment

The firm manufactures niche products such as Bamboo Cotton wears, UV Protection Factor (UPF) wears and Bamboo Cotton Wool wears. The UV Protection Factor (UPF) protects the users from skin diseases like Eczema and Skin Irritations and avoids odour and, hence, these products have high demand in USA. Further, BSA faces limited competition from local manufacturers given the specialised nature of these products which helps the firm to generate higher revenue and margins.

Weaknesses

• Customer and geographical concentration risk

BSA is exposed to client concentration risk as ~94.44 percent of the total operating income is generated from two major customers in USA - Tasc Performance Inc and Coolibar Inc. Nevertheless, the firm has long relationship with these 2 customers and has been associated for the past 15 years, which helps mitigates the concentration risk.

• Risk of capital withdrawal given the proprietorship constitution

BSA's financial risk profile is susceptible to inherent risk of capital withdrawal associated with the proprietorship constitution of the firm. Any significant capital withdrawal will adversely impact the financial risk profile and hence the credit risk profile. However, Acuité has not observed any capital withdrawal over the past 4 years.

Outlook: Stable

Acuité believes that BSA will maintain a 'Stable' business risk profile in the medium term on account of its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case the firm registers better-than-expected growth in revenues while maintain comfortable profitability and liquidity position. Conversely, the outlook may be revised to 'Negative' in case the firm registers any deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	66.68	55.81	40.12
EBITDA	Rs. Cr.	16.39	13.78	5.05
PAT	Rs. Cr.	6.67	8.00	2.72
EBITDA Margin	(%)	24.58	24.68	12.58
PAT Margin	(%)	10.01	14.33	6.79
ROCE	(%)	19.36	32.27	18.72
Total Debt/Tangible Net Worth	Times	1.60	1.25	1.97
PBDIT/Interest	Times	8.65	9.71	8.04
Total Debt/PBDIT	Times	2.24	1.46	3.15
Gross Current Assets (Days)	Days	88	57	60

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-17.htm>
- Financial Ratios And Adjustments - <https://www.acuitein/viewrating-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
08-Jul-2017	Proposed Long Term Loan	Long Term	17.00	ACUITE BBB- / Stable (Assigned)
	Packing Credit	Short Term	8.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	9.00	ACUITE BBB- / 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
Packing Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3+ (Upgraded)
Term Loan-II	Not Applicable	Not Applicable	10-Dec2018	0.05	ACUITE BBB / Stable (Upgraded)
Term Loan-III	Not Applicable	Not Applicable	10-May2020	0.22	ACUITE BBB / Stable (Upgraded)
Term Loan-IV	Not Applicable	Not Applicable	10-May2020	0.20	ACUITE BBB / Stable (Upgraded)
Term Loan-V	Not Applicable	Not Applicable	10-Aug2022	5.76	ACUITE BBB / Stable (Upgraded)
Term Loan-VI	Not Applicable	Not Applicable	10-Feb2022	0.70	ACUITE BBB / Stable (Upgraded)
Term Loan-I	Not Applicable	Not Applicable	19-Sep-2022	14.40	ACUITE BBB / Stable (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.67	ACUITE BBB / Stable (Upgraded)

Contacts

Analytical	Rating Desk
Manish Saraf Head - Financial Sector Ratings Tel: 022-67141111 manish.saraf@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Praveen Kumar Analyst - Rating Operations Tel: 022-67141148 praveen.kumar@acuiteratings.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.