

Press Release

Network Clothing Company Private Limited (NCCPL)

15 March, 2018



Rating Assigned

| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 88.00 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 triple B minus) and short term rating of '**SMERA A3**' (read as SMERA A three) on the Rs. 88.00 crore bank facilities of Network Clothing Company Private Limited (NCCPL). The outlook is '**Stable**'.

The Tirupur-based NCCPL was established in 1993 by Mr. Ravi, Managing Director. The company manufactures garments for men, women and children. Garments for women are sold under the 'Twin Birds' brand name. The company has installed capacity of 125000 pieces for garments and processes 10 tonnes of fabric per day.

Key rating drivers

Strengths

Experienced management and established track record of operations

NCCPL was promoted by Mr. Murugaswamy and is joined by other Directors, Mr. Nambirajan and Mr. Ramaswamy. The management possesses experience of over two decades in the garment manufacturing industry. The extensive experience has helped the company establish long term relations with customers and suppliers. Besides, NCCPL also benefits from its in-house R&D department that designs products.

Reputed clientele

NCCPL caters to international brands such as H&M, Armor Lux to name a few. The company also sells its products to large retail chains such as Max Fashion, Primark, Dunnes stores, Lulu Hypermarket etc among others.

Diversified product range

The company manufactures intimate wear, sportswear and casual wear. Further, the company also sells women's wear under the 'Twin Birds' brand name which has been in existence for more than five decades. The diversified product range helps the company maintain profitability and margins.

Weaknesses

Average financial risk profile

NCCPL has average financial risk profile marked by net worth of Rs 42.33 crore times as on 31 March, 2017 as against Rs 32.81 times as on 31 March, 2016. The gearing stood at a high of 2.52 times as on 31 March, 2017 as against 2.11 times as on 31 March, 2016. The Interest Coverage Ratio stood at 1.90 times in FY2017 as against 1.81 times in FY2016. The Debt Service Coverage Ratio stood at 1.81 times in FY2017 as against 1.60 times in FY2017.

Susceptible to changes in input prices and fluctuations in forex rates

The profitability is susceptible to fluctuations in the prices of raw materials - cotton yarn and other consumables. The prices of cotton are highly dependent on agro-climatic conditions. Besides, cotton prices are fixed by the government through Minimum Support Price (MSP). SMERA believes that NCCPL should be able to maintain its operating profitability around existing levels notwithstanding the volatility in prices of its key inputs, on the back of its established position in the domestic market.

Working capital intensive operations

The operations of the company are working capital intensive marked by high GCA days of 180 in FY2017 as against 131 in FY2016. The GCA days are mainly dominated by debtors days of 95 in FY2017 as compared to 59 in FY2016. The average collection period is around 90 days. The average bank limit utilisation for the past six months ended 31 January, 2018 stood at ~92 percent.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Network Clothing Company Private Limited to arrive at the rating.

Outlook – Stable

SMERA believes that NCCPL will continue to maintain a Stable outlook over the medium term owing to the extensive experience of its promoters and established track record of operations. The outlook may be revised to 'Positive' in case of sustainable improvement in revenues and profitability. Conversely, the outlook may be revised to 'Negative' if the financial risk profile deteriorates.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 367.95 | 315.10 | 300.38 |
| EBITDA | Rs. Cr. | 13.94 | 11.29 | 10.37 |
| PAT | Rs. Cr. | 1.74 | 2.23 | 1.38 |
| EBITDA Margin | (%) | 3.79 | 3.58 | 3.45 |
| PAT Margin | (%) | 0.47 | 0.71 | 0.46 |
| ROCE | (%) | 8.48 | 9.80 | 15.93 |
| Total Debt/Tangible Net Worth | Times | 2.52 | 2.11 | 2.71 |
| PBDIT/Interest | Times | 1.90 | 1.86 | 1.71 |
| Total Debt/PBDIT | Times | 7.65 | 6.12 | 7.97 |
| Gross Current Assets (Days) | Days | 180 | 131 | 136 |

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

None

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.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. Crore) | Ratings/Outlook |
|--------------------------|------------------|----------------|----------------|-------------------------------|--------------------|
| Packing credit | Not Applicable | Not Applicable | Not Applicable | 43.50 | SMERA A3 |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 7.00 | SMERA A3 |
| Foreign Bill Discounting | Not Applicable | Not Applicable | Not Applicable | 25.00 | SMERA A3 |
| Term Loan I | Not Applicable | Not Applicable | Not Applicable | 4.29 | SMERA BBB-/ Stable |
| Term Loan II | Not Applicable | Not Applicable | Not Applicable | 7.76 | SMERA BBB-/ Stable |
| Long Term (Proposed) | Not Applicable | Not Applicable | Not Applicable | 0.45 | SMERA BBB-/ Stable |

Contacts:

| Analytical | Rating Desk |
|--|---|
| Suman Chowdhury President - SMERA Bond Ratings Tel: +91-22-6714 1107 suman.chowdhury@smerra.in | Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smerra.in |
| Amogh Kharkar, Analyst - Rating Operations Tel: +91-22-6714 1315 amogh.kharkar@smerra.in | |

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA 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. SMERA 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, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA 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. SMERA 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.smera.in) for the latest information on any instrument rated by SMERA.