

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.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>

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. 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@smera.in Amogh Kharkar, Analyst - Rating Operations Tel: +91-22-6714 1315 amogh.kharkar@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

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