Press Release

Network Clothing Company Private Limited

May 27, 2019

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.88.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Negative (Rating Reaffirmed, Outlook revised from Stable to Negative)
Short Term Rating	ACUITE A3 (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** and short term rating of **'ACUITE A3' (read as ACUITE A three)** to the Rs.88.00 crore bank facilities of Network Clothing Company Private Limited (NCPL). The outlook is revised from '**Stable'** to **'Negative'**.

The rating re-affirmation is based on the experience of the promoters, improving operating margins and reputed clientele in the apparel industry; however, it is partly constrained by sharp decline in its revenues and working capital intensive operations. Its revenues have sharply declined from Rs.298 crores to about Rs.168 crores in FY2019. It is owing to management's conscious decision to change its product mix and focus on high margin oriented volumes; and hived off its rental operations in FY2018 in phased manner which has also affected the topline. It resulted in improvement in the operating margins to about 10.60 per cent in FY2019 against 5.98 per cent in the past. Its clientele are reputed that include Armorlux, Kmart Australia Limited, H&M, Evolution Apparel Inc., among others spread across USA, Australia, and France. Going forward, with penetration into new markets and new client addition, revenue profile is expected to improve to about Rs.190 – 200 crores over the medium term. However, the ratings are constrained by working capital intensive operations and the outlook is revised to negative owing to deterioration in the gross current assets marked by high inventory levels.

Network Clothing Company Private Limited (NCPL), incorporated in the year 1993 is engaged in the manufacturing of garments and processing of fabrics. It was established by Mr. Ravi who is currently the Managing Director. The Company currently has an installed capacity of 1.35 crore pieces of garments per annum and processes 10 tons of fabrics per day.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experience of promoters and established track record of operations**
  Network Clothing Company is incorporated by Mr. Ravi and managed by Mr. Ravi and Mr. Nambirajan. The directors are vintage people with experience of over two decades in the textile industry. This has helped them build healthy relationship with its suppliers and customers to ensure a steady raw material supply and repeat business. The company caters to wide range of renowned export customers from countries like Spain, USA, Ireland, France, Dubai, etc. Brands such as Dunnes, Armourux, H&M and many others are among their customer portfolio. The Company manufactures women's wear under the brand name of "Twin Birds" and it is sold in 20 exclusive stores multiple brand outlets, franchise stores and also online own website, Amazon and Flipkart and contributes about 35 to 40 percent in the topline. NCC's conscious efforts to reduce the low-margin business has yielded results in terms of improvement in its operating margins; going forward, the management to focus more on high margin oriented business from the domestic market while continuing to remain in overseas business. Acuité believes that the industry experience and domain knowledge of the management and reputed clientele are expected to support in improving its business risk profile over the medium term.

Weaknesses

- **Moderate financial risk profile**
  Financial risk profile of the company is moderate marked by moderate gearing, total outside liabilities to total net worth (TOL/TNW) as well as moderate debt protection metrics. Gearing is moderate at 1.79 times as on 31 March, 2018 as against 2.52 times as on 31 March, 2017. TOL/TNW is high at 2.37 times as on 31 March, 2018 as against 4.71 times as on 31 March, 2017; improvement in the leverage is owing to equity infusion by the directors amounting to Rs.3.24 crore (Rs.0.64 crore equity capital and Rs.2.59 crore share premium) besides accretion to reserves. Net worth is moderate at Rs.47.29 crore as on 31 March, 2018 as against Rs.42.33 crore as on 31 March, 2017. Of the total debt of Rs.84.86 crore as on 31 March, 2018, long term debt constitutes Rs.11.82 crore and short term debt of Rs.73.04 crore.

  The company has undergone capital expenditure in FY2017 of Rs.9.29 crores to install a stenter machine to manufacture a fabric type "Lycra" which was initially funded by internal accruals and later reimbursed by term loans from Federal Bank; and in FY2018 the capital expenditure incurred is about Rs3.07 crores; for modernizing the sewing machines which was funded by internal accruals. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 2.37 times and 0.08 times respectively in FY2018. The company reported cash accruals of Rs.7.13 crore for FY2018. Further, repayment obligations are expected to be in the range of Rs.1.30-1.50 crore against annual cash accruals of about Rs.8.00-10.00 crore. Acuité believes that with expected improvement in revenues, growth in profitability, the financial risk profile is expected to improve to comfortable levels over the medium term.

- **Working capital intensive management**
  Operations of the company have shown moderate working capital management marked by gross current assets (GCA) at about 226 days in FY2019 (provisional) as against 142 days in FY2017; deterioration in the GCA is owing to high inventory levels at about Rs.57.30 crores as of March 31, 2019 (~134 days approximately) against 54 days in FY2018; high due to inventory ready for export and waiting for shipping approval from the clientele. The credit terms stood at 56 days in FY2018 against 118 days in FY2017. More so, the payable days stretch in to about 90 days in FY2019 (provisional) against 56 days in FY2018. This resulted in, high utilisation of its bank lines at about 97 per cent over last six months through March 2019; also, its current ratio is moderate at about 1.25 times as of March 31, 2018. Acuité believes that NCPL's operations continue to be working capital intensive basis the business cycle.

Liquidity

Liquidity profile of NCPL is moderate reflected by high bank line utilization. It has reported cash accruals of Rs.7.13 crore in FY2018. It is expected to generate cash accruals in the range of Rs.8.00-10.00 crore over the medium term, against which its repayment obligations are about Rs.1.30-1.50 crore. However, working capital intensive operations are expected to weigh on the liquidity. Its working capital limits are highly utilized about 97 per cent for the last six months through March 2019. Acuité believes that moderate accruals with modest obligations may add support, however is partly expected to be constrained by moderate working capital intensive operations and expected growth in revenues.

Outlook: Negative

Acuite believes that NCPL will maintain a 'Negative' outlook over the medium term on account of elongated working capital operations. The outlook may be revised to 'Stable' if the company registers significant improvement in the working capital operations while sustaining the revenues and profitability. While, the outlook may be revised to 'Positive' if the company registers significant growth in revenues and profitability while improving its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	298.38	367.95	315.10
EBITDA	Rs. Cr.	17.86	13.94	11.29
PAT	Rs. Cr.	1.92	1.74	2.23
EBITDA Margin	(%)	5.98	3.79	3.58
PAT Margin	(%)	0.64	0.47	0.71
ROCE	(%)	9.87	8.48	20.68

Total Debt/Tangible Net Worth	Times	2.35	3.32	2.11
PBDIT/Interest	Times	1.68	1.90	1.86
Total Debt/PBDIT	Times	4.84	7.24	5.02
Gross Current Assets (Days)	Days	142	180	131

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
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.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
15-Mar-2018	Packing Credit	Short Term	43.50	ACUITE A3 (Assigned)
	Cash Credit	Long Term	7.00	ACUITE BBB-/ Stable (Assigned)
	Foreign Bill Discounting	Short Term	25.00	ACUITE A3 (Assigned)
	Term Loan I	Short Term	4.29	ACUITE BBB-/ Stable (Assigned)
	Term Loan II	Long Term	7.76	ACUITE BBB-/ Stable (Assigned)
	Long Term (proposed)	Long Term	0.45	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	43.50	ACUITE A3 (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB-/Negative (Reaffirmed)
Foreign Bill Discounting	Not Applicable	Not Applicable	Not Applicable	^22.25	ACUITE A3 (Reaffirmed)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	3.15	ACUITE BBB-/Negative (Reaffirmed)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	7.10	ACUITE BBB-/Negative (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Assigned)

^ Facilities have been reduced to that extent

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About Acuité Ratings & Research:
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