

Press Release

Network Clothing Company Private Limited

August 17, 2020

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

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

The revision in outlook reflects improved working capital management underpinned by a reduction in inventory levels along with moderate improvement in revenue and profitability. The aforesaid improvement is attributed to a change in product and customer mix. Nevertheless, the business outlook is expected to be moderately impacted by the outbreak of Covid-19 pandemic resulting in lower revenue and profitability in FY2021 vis-à-vis FY2020. NCPL has reported revenue of Rs.33.4 Cr in the year-to-date (Till July, 2021) and is expected to report revenue in the range of Rs.160-170 Cr in FY2021. Acuite believes that with adequate unutilised capacity underway, continuous orders from its vintage customers and cost optimization measures, the business risk profile will improve further over the medium term.

Tamil Nadu-based, Network Clothing Company Private Limited (NCPL) is incorporated in the year 1999. Promoted by Mr.Ravi Murugaswamy and Mr. Ramiah Namirajan, NCPL is engaged in manufacturing of knitted garments for kids, men and women. It exports 63% of its total production to countries like Sweden, France, UK, Ireland, Australia and UAE. NCPL manufactures women's hosiery products under the brand name of "Twin Birds" and it is sold in 25 exclusive stores and multiple brand outlets across India. The company operates from eight units in Tamil Nadu, seven of these units are located in Tiruppur and one unit is located in Erode. NCPL has installed capacity of 1.7 crore pieces per annum which is utilised at the rate of 74% (FY2020)

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of NCPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management, a long track record of operations and reputed clientele

NCPL is engaged in the manufacturing of knitted garments for kids, men and women. The company is promoted by Mr.Ravi Murugaswamy and Mr. Ramiah Namirajan, who have more than two decades of experience in the textile industry. The top management is ably supported by a well-qualified and experienced team of the second line of management. Its customer base is wide, with no significant revenue concentration. The company has reputed clientele such as Armorlux, Kmart Australia Limited, H&M, Evolution Apparel Inc., Primark among others spread across Sweden, France, UK, Ireland, Australia and UAE. The company's scale of operations has improved in FY2020. NCPL has shown growth in revenue from Rs.179.66 Cr in FY2019 to Rs.215.22 Cr in FY2020 (Provisional). NCPL has booked revenues of Rs.33.37 Cr till July-month of FY2021 and has an order of approx. Rs.128 Cr to be executed by March 2021.

Acuite believes that NCPL will continue to benefit from the promoter's established presence in the industry and its improving business risk profile over the medium term.

• Moderate financial risk profile

The financial risk profile of NCPL is marked by healthy tangible net worth, moderate gearing and debt

protection metrics. Networth stood at Rs.45.82 Cr as on March 31, 2020 (Provisional) against Rs.42.31 Cr as on March 31, 2019. Gearing has improved to 1.50 times as on March 31, 2020 (Provisional) as compared to 1.75 times in the previous year owing to repayments of its term debt-obligations and higher net cash accruals. Total debt of Rs.68.57 Cr includes short term debt of Rs.57.09 Cr, long term debt of Rs.7.68 Cr and unsecured loans of 2.49 Cr. The company has followed a moderate leverage policy in the past that is reflected through its average gearing of 1.86 times during the last three years ending March, 2020. NCPL's cash accruals in the range of Rs.6.9-7.15 crore have supported in minimising the reliance on external debt over the last three years ending March, 2020. The cash accruals are estimated to remain in the range of Rs.4.47-9.66 Cr against debt obligations of Rs.1.37 Cr over the near to medium term. Interest coverage ratio (ICR) stood at 2.30 times in FY2020 (Provisional) against 2.25 times in FY2019, while DSCR stood at 1.71 times in FY2020 (Provisional) as against 1.70 times in FY2019. Similarly, net cash accruals to total debt (NCA/TD) stood at 0.10 times in FY2020 (Provisional) against 0.09 times in FY2019. Acuite believes that with comfortable cash accruals and no major debt-funded capital expenditure in place, the financial risk profile will remain moderate over the medium term.

Weaknesses

• Working capital intensive nature of operations

NCPL's operations are working capital intensive in nature as reflected in its gross current assets (GCA) of 168 days in FY2020 (Provisional) as against 208 days in FY2019. The high GCA days emanates from moderate inventory days of 72 days for FY2020 as compared to 84 days for FY2019. The debtor days stood at 36 days for FY2020 as compared to 64 days for FY2019. While the working capital parameters have improved, there has been higher reliance on working capital borrowings to sustain operations, for which the utilization was more than 95 percent for the past six months ended July 2020. Acuite believes that the working capital cycle will continue to be intensive over the medium term.

• Highly fragmented and competitive industry

The knitted garment industry in India is highly fragmented and competitive, marked by the presence of a large number of organised and unorganised players. NCPL is exposed to intense competition from both domestic players as well as the established players in the overseas market. The shifts in consumption patterns can also have an adverse impact on the operations of the company.

Liquidity position: Adequate

The liquidity position is adequate, marked by adequate cash accruals to support repayment obligations. It has reported cash accruals of Rs.7.16 Cr in FY2020 (provisional) and Rs.6.89 Cr in FY2019 against debt obligations of Rs.1.31 Cr and Rs.1.35 Cr respectively. The company is expected to generate adequate net cash accruals vis-à-vis its debt obligations. The working capital cycle is intensive, resulting in utilisation of its limits by more than 90 per cent over the last six months through July 2020. Its current ratio is moderate at 1.38 times as of 31 March, 2020 (provisional). Acuite believes that despite working capital intensive operations, the healthy cash accruals will support and sustain an adequate liquidity profile.

Rating Sensitivities

- Lower-than-expected revenues and profitability impacting financial risk profile
- Stretch in the working capital cycle or significant debt-funded capital expenditure leading to deterioration in liquidity

Material Covenants

None

Outlook: Stable

Acuite believes NCPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and long-standing relations with customers and suppliers. The outlook may be revised to 'Positive' in case NCPL registers higher than expected revenues and profitability while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in the company's revenue or profitability or significant deterioration in the working capital cycle leading to deterioration in its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	215.22	179.66
PAT	Rs. Cr.	3.51	2.80
PAT Margin	(%)	1.63	1.56

Total Debt/Tangible Net Worth	Times	1.50	1.75
PBDIT/Interest	Times	2.30	2.25

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

None

Any other information

None

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
27-May-2019	Packing Credit	Short Term	43.50	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	7.00	ACUITE BBB-/ Negative (Reaffirmed)
	Foreign Bill Discounting	Short Term	22.25*	ACUITE A3 (Reaffirmed)
	Term Loan I	Long Term	3.15	ACUITE BBB-/ Negative (Reaffirmed)
	Term Loan II	Long Term	7.10	ACUITE BBB-/ Negative (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Assigned)
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	Long 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)

*Facilities have been reduced to that extent

***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	25.00	ACUITE A3 (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Stable (Reaffirmed)

Foreign Bill Discounting	Not Applicable	Not Applicable	Not Applicable	5.00*	ACUITE A3 (Reaffirmed)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE BBB-/Stable (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	16.5	ACUITE A3 (Reaffirmed)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	6.10	ACUITE BBB-/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	12.65	ACUITE BBB-/Stable (Assigned)

*Facilities have been revised to that extent

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About Acuité Ratings & Research:

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