

Press Release

Network Clothing Company Private Limited

January 20, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	38.50	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	49.50	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	88.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Reason for reaffirmation

The rating reaffirmation factors in the stable operating and financial performance of the company marked by the improvement in the operating income, marginal decline in the operating margins and moderate financial risk profile. The rating also takes into consideration the established position of the company's brand 'Twin Birds' majorly in the states of Kerala, Tamil Nadu, Karnataka, Andhra Pradesh, and Telangana. The company's revenue stood at Rs.217.96 crore in FY2022 as against the revenue of Rs.172.67 crore in FY2021. The company has recorded the turnover of Rs.197.10 crore till December 2022. The improvement in the revenues in FY2023 is driven by the increase in the demand for the products in the domestic market. The ratings are however constrained by the working capital-intensive operations of the company along with the susceptibility of the margins to raw material price fluctuations.

About the Company

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 around 50% 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". The company operates from eight units in Tamil Nadu, seven of these units are located in Tiruppur and one unit is located in Erode.

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 and established track record of operation

NCPL was incorporated in the year 1999. 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 Kmart Australia Limited, H&M, Evolution Apparel Inc., Primark among others spread across Sweden, France, UK, Ireland, Australia and UAE. Acuité 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.

Improvement in the operating income albeit slight deterioration in profitability margins

The company's revenue improved and stood at Rs.217.96 crore in FY2022 compared to revenue of Rs.172.67 crore in FY2021 as against revenue of Rs.215.23 crore in FY2020. The revenue of the company had declined in FY2021 due to the covid pandemic as the company's operations were suspended for few months. However, with resumption of economic activities, the operations of the company were stabilized as reflected by the revenues of FY2022. Till December 2022, the company's revenue stood at Rs.197.10 crores. The revenues of the company witnessed an improvement in FY2023 due to the increase in the demand for the products in the domestic market. However, the operating profit margin of the company declined and stood at 5.13 percent in FY2022 compared against 6.78 percent in FY2021 due to the increase in the raw material costs as well as increase in the power costs in FY2022. The PAT margin of the company stood at 1.41 percent in FY2022 compared to 1.83 percent in FY2021. Acuité believes that the business risk profile of the company will continue to improve in medium term on account of established brand as well as increase of demand for the products in the domestic market.

Moderate financial risk profile

NCPL has a moderate financial risk profile marked by tangible net worth of Rs.52.87 crore as on 31 March 2022 as against Rs.49.91 crore as on 31 March 2021. The overall gearing level of the company stood at 1.12 times as on 31 March 2022 as against 1.13 times as on 31 March 2021. The total debt of the company stood at Rs.59.34 crore as on 31 March 2022. It comprised of short-term debt of Rs.59.34 crore as on 31 March 2022. The company had taken a UGECL loan of Rs.11.00 crore in FY2022 for the working capital purposes. A moratorium period of 2 years is offered on the loan. However, the company has made partial prepayments of the loan during the year to reduce the interest burden. The coverage ratios of the company stood moderate with Interest Coverage Ratio (ICR) of 2.86 times for FY2022 against 2.47 times for FY2021. The Debt Service Coverage Ratio (DSCR) stood at 2.53 times for FY2022 against 1.74 times for FY2021. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 1.50 times for FY2022 as against 1.46 times in FY2021. Acuité believes that the financial risk profile of the company is likely to remain moderate over the medium term.

Weaknesses

Working capital intensive operations

The company's operations are working capital intensive as evident from Gross Current Asset (GCA) of 158 days as on March 31, 2022 as against 185 days as on March 31, 2021. The inventory levels have improved and stood at 57 days for FY2022 compared against 77 days for FY2021. Average inventory holding period for the raw materials is around 3 months and that of finished goods is around 1 month. The debtor days stood at 35 days for FY2022 against

37 days for FY2021. The average credit period allowed to the customers is around 30-60 days. The creditor days of the company stood at 55 days for FY2022 as against 56 days for FY2021. The average credit period received from the customers is around 50 days. The company does advance payments to the suppliers to get the yarns at a discounted rate. The average utilization of the CC limits of the company remains high at ~78 percent in last six months ended December' 22 and the PC facility is utilized ~97 percent in last six months ended October' 22.

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.

Susceptibility of margins to raw material price fluctuation risk

The profitability of the company 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. The prices of cotton had increased significantly in the FY2022 which resulted in the decline in the operating margins of the company. NCPL's ability to maintain its operating profitability around existing levels notwithstanding the volatility in prices of its key inputs will remain a key rating sensitivity in medium term.

Rating Sensitivities

Significant improvement in the scale of operations and profitability margins.
Any elongation of the working capital cycle leading to deterioration in financial risk profile.

Material covenants

None

Liquidity position: Adequate

The company has an adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.6.25 crore in FY2022 compared against negligible maturing debt obligation over the same period. The cash accruals of the company are estimated to remain in the range of Rs.7.89-10.91 crore during 2023-25 period while its maturing debt obligations is estimated to be in the range of Rs.1.37-2.75 crore during the same period. The average utilization of the CC limits of the company remains high at ~78 percent in last six months ended December' 2022 and the PCFC facility is utilized ~97 percent in last six months ended October '2022. The company maintains cash and bank balance of Rs.1.70 crore as on March 31, 2022. The current ratio stood at 1.31 times as on March 31, 2022.

Outlook: Stable

Acuité 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.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	217.96	172.67
PAT	Rs. Cr.	3.08	3.15
PAT Margin	(%)	1.41	1.83
Total Debt/Tangible Net Worth	Times	1.12	1.13
PBDIT/Interest	Times	2.86	2.47

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Nov 2021	Packing Credit	Short Term	25.00	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Packing Credit	Short Term	16.50	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	2.35	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	18.15	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	6.10	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A3 (Assigned)

17 Aug 2020	Packing Credit	Short Term	16.50	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	1.75	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	12.65	ACUITE BBB- Stable (Assigned)
	Packing Credit	Short Term	25.00	ACUITE A3 (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.50	ACUITE A3 Reaffirmed
South Indian Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	16.50	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	29.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	12.50	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	11.00	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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