



**Press Release**  
**Network Clothing Company Private Limited**  
**March 29, 2024**  
**Rating Upgraded**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	45.00	ACUITE BBB   Stable   Upgraded	-
Bank Loan Ratings	43.00	-	ACUITE A3+   Upgraded
<b>Total Outstanding Quantum (Rs. Cr)</b>	<b>88.00</b>	-	-

**Rating Rationale**

Acuite has upgraded its long-term rating to ‘**ACUITE BBB**’ (read as **ACUITE Triple B**) from ‘**ACUITE BBB-**’ (read as **ACUITE Triple B Minus**) and short-term rating to ‘**ACUITE A3+**’ (read as **ACUITE A Three Plus**) from ‘**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**’.

**Rationale for Upgrade**

The rating upgrade factors in the improvement in the operating and financial performance of the company marked by the increase in the operating income, profitability margins along with adequate liquidity. The company’s revenue stood at Rs.252.13 crore in FY2023 as against the revenue of Rs.217.96 crore in FY2022 on account of increase in demand for the products in the domestic and international market. The company has its presence in countries like Germany, Australia, Poland, UK, USA, Sweden and among others.

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. Further, for 11MFY2024, the company achieved a revenue of Rs.245 crores. The upgrade also factors in the moderate financial risk profile marked by moderate net worth, improving gearing and moderate debt protection metrics. The rating is 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.

**Unsupported Rating**

Not Applicable

**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 along with profitability margins

The company's revenue improved and stood at Rs.252.13 crore in FY2023 compared to revenue of Rs.217.96 crore in FY2022. The revenue increased due to increase in demand for the products in the domestic and international market. Till February 2024, the company achieved a revenue of Rs.245 crores. Further, operating profit margin of the company improved and stood at 9.60 percent in FY23 as compared to 5.13 percent in FY22. The operating margin of the company improved due to the decrease in the raw material costs. Also, the EBITDA margins shown an improvement in 10MFY2024 which stood at 13.02 percent. The PAT margin of the company improved to 4.05 percent in FY23 compared to 1.41 percent in FY22. Further, the company has also shown improvement in PAT margins in 10MFY2024 of 6.23 percent.

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

The company has a moderate financial risk profile marked by moderate networth, low gearing and moderate debt protection metrics. The tangible net worth of Rs.63.19 crore as on 31 March 2023 as against Rs.52.87 crore as on 31 March 2022. The gearing level of the company stood low at 0.97 times as on 31 March 2023 as against 1.12 times as on 31 March 2022. The total debt of the company stood at Rs.61.51 crore as on 31 March 2023. It comprised of short-term debt of Rs.51.81 crore as on 31 March 2023. The company has taken a UGECCL loan of Rs.11.00 crore in FY22 for the working capital purposes. A moratorium period of 2 years is offered on the loan. However, the company is doing prepayment of the loan to reduce the interest cost. The outstanding loan as on March 2024 is ~Rs.7.80 crore. The coverage ratios of the company stood moderate with Interest Coverage Ratio (ICR) of 3.73 times for FY23 against 2.86 times for FY22. The Debt Service Coverage Ratio (DSCR) stood at 3.19 times for FY23 against 2.53 times for FY22. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 1.29 times for FY23 as against 1.50 times in FY22.

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 even though the Gross Current Asset (GCA) have improved to 153 days as on March 31, 2023 as against 158 days as on March 31, 2022. The inventory levels stood at 63 days for FY23 as compared against 57 days for FY22. The average inventory holding period for the raw materials is around 3 months. The company gets back-to-back orders from the export market. For the domestic orders, the distributors place the bulk order and then the products are dispatched within 1-2 days. The company stocks up the raw materials to avoid the raw material price fluctuations as well as to make the raw materials available whenever required. The average inventory holding period for finished goods is around 1 month. The debtor days stood at 38 days for FY23 against 35 days for FY22. The average credit period allowed to the customers is around 30-60 days. The creditor days of the company stood at 49 days for FY23 as against 55 days for FY22. The average credit

period received from the customers is around 50 days. The company is mostly doing advance payments to the suppliers to get the yarns at a discounted rate. The average fund-based utilization of the bank limits of the company remains high at ~95 percent and for non-fund based remains at 42% in last seven months ended Feb' 24.

Acuite believes NCCPL's ability to restrict further elongation in its working capital cycle will be a key rating sensitivity.

### **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 been stable in FY2023 which resulted in the improvement 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.

### **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.14.33 crore in FY23 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.16.34-24.20 crore during 2024-26 period while its maturing debt obligations is estimated to be in the range of Rs.1.10-2.75 crore during the same period. The average fund-based utilization of the bank limits of the company remains high at ~95 percent and for non-fund based remains at 42% in last seven months ended Feb' 24. The company maintains unencumbered cash and bank balances of Rs.1.35 crore as on March 31, 2023. The current ratio stood at 1.57 times as on March 31, 2023.

Acuite expects NCCPL's liquidity profile to remain adequate on account of adequate net cash accruals against repayment obligations constrained to some extent by working capital intensive nature of operations of NCCPL.

### **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.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	252.13	217.96
PAT	Rs. Cr.	10.20	3.08
PAT Margin	(%)	4.05	1.41
Total Debt/Tangible Net Worth	Times	0.97	1.12
PBDIT/Interest	Times	3.73	2.86

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

Not Applicable

### 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](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Jan 2023	Bank Guarantee (BLR)	Short Term	0.50	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB-   Stable (Reaffirmed)
	Letter of Credit	Short Term	3.50	ACUITE A3 (Reaffirmed)
	PC/PCFC	Short Term	29.00	ACUITE A3 (Reaffirmed)
	PC/PCFC	Short Term	16.50	ACUITE A3 (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	12.50	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	11.00	ACUITE BBB-   Stable (Reaffirmed)
18 Nov 2021	Bank Guarantee (BLR)	Short Term	1.00	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB-   Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Reaffirmed)
	PC/PCFC	Short Term	16.50	ACUITE A3 (Reaffirmed)
	PC/PCFC	Short Term	25.00	ACUITE A3 (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	18.15	ACUITE BBB-   Stable (Reaffirmed)
	Term Loan	Long Term	2.35	ACUITE BBB-   Stable (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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.50	ACUITE A3+   Upgraded ( from ACUITE A3 )
Union Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	13.00	ACUITE BBB   Stable   Upgraded ( from ACUITE BBB- )
South Indian Bank	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	16.50	ACUITE A3+   Upgraded ( from ACUITE A3 )
Union Bank of India	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	26.00	ACUITE A3+   Upgraded ( from ACUITE A3 )
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	24.20	ACUITE BBB   Stable   Upgraded ( from ACUITE BBB- )
Union Bank of India	Not avl. / Not appl.	Term Loan	29 Sep 2022	Not avl. / Not appl.	25 Oct 2029	Simple	7.80	ACUITE BBB   Stable   Upgraded ( from ACUITE BBB- )

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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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