

Press Release

Art And Craft Exclusives

June 27, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 10.50 Cr.
Long Term Rating	ACUITE BB-/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four plus**) to the Rs. 10.50 crore bank facilities of Art And Craft Exclusives (ACE). The outlook is '**Stable**'.

Rajasthan-based, ACE was established in 1995 by Mr. Anil Sharma as a proprietorship firm and is engaged in the manufacturing and exporting of ladies readymade garments. In addition to that, it has recently started manufacturing fashion accessories like bags and home décor items like cushion cover, table cloth etc. The firm's entire revenue is generated by exporting all of its products overseas to countries like Japan, France and Argentina to name a few. Further, ACE has an installed capacity of 3.5 lakhs pieces per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced track record of operations and experienced management**

Established in 1991, ACE is headed by Mr. Anil Sharma, who has around three decades of experience and the other senior management personnel of the firm, Prateek Sanadhya and Anushruti Sanadhya also possess more than five years of experience in the aforementioned line of business. The firm, thus benefits from the long term relations of the management with customers and suppliers.

Weaknesses

- **Average financial risk profile**

ACE has average financial risk profile marked by net worth of Rs. 4.74 crore as on 31 March, 2019 (Provisional) as compared to Rs.4.91 Crore as on 31 March, 2018. Gearing (Debt-to-equity) stood at 2.72 times as on 31 March 2019 (Provisional) as against 2.45 times as on 31 March 2018. Total debt of Rs. 12.89 crores mainly comprises of working capital borrowings to the extent of Rs. 7.54 crore and term loan of Rs. 3.27 crores. ICR (Interest coverage ratio) stood at 2.55 times for FY2019 (Provisional) as against 2.44 times for FY2018.

- **Working capital intensive nature of operations**

The firm's operations are working capital intensive in nature as reflected in Gross Current Assets (GCA) of 136 days in FY2019 (Provisional) as against 202 days in FY2018. GCA days remained high mainly on account of inventory holding period, which is 63 days in FY2019 (Provisional). Further, creditor payback period stood at 155 days in the FY2019 (Provisional). Acuité believes that the working capital requirements will continue to remain intensive over the medium term on account of the level of inventory to be maintained and the credit given to its customers.

- **Foreign Exchange Exposure**

ACE generates a large portion of its revenues by exporting its products overseas thus the business is vulnerable to exchange rate fluctuations and fragile macroeconomic stability. The firm hedges its exposure by keeping adequate margin in transactions.

Liquidity Position

The firm has adequate liquidity marked by net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs. 1.52 crore for FY2019 (Provisional) while its maturing debt obligations were 0.25 crores for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs. 1.75 crore to Rs. 2.80 crore during 2020-22, while its repayment obligations are estimated to be around Rs. 0.25 crore. The firm's working capital operations are moderate marked by gross current asset (GCA) of 136 days for FY2019 (Provisional). ACE maintains cash and bank balances of Rs. 0.45 crore as on 31 March, 2019 (Provisional). The current ratio stood at 0.78 times as on 31 March, 2019 (Provisional). Acuité expects the company to maintain adequate liquidity position on account of moderate cash accruals and no major debt repayment over the near to medium term

Outlook: Stable

Acuité believes that ACE will maintain a 'Stable' outlook over the medium term on the back of its experienced management and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or in case of deterioration in the firm's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	25.86	21.06	15.53
EBITDA	Rs. Cr.	2.67	1.61	1.77
PAT	Rs. Cr.	0.97	0.50	0.39
EBITDA Margin	(%)	10.33	7.65	11.42
PAT Margin	(%)	3.76	2.38	2.50
ROCE	(%)	12.72	8.89	9.26
Total Debt/Tangible Net Worth	Times	2.72	2.45	2.66
PBDIT/Interest	Times	2.55	2.44	2.09
Total Debt/PBDIT	Times	4.69	6.06	5.85
Gross Current Assets (Days)	Days	136	202	255

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

Not Applicable

Any other information

Not Applicable

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 the instrument/facilities	Term	Amount (Rs. Cr.)	Ratings/ Outlook
25- Apr-2018	Cash Credit	Long Term	1.50	ACUITE BB-/ Stable(Assigned)
	Packing Credit	Short Term	4.25	ACUITE A4 (Assigned)
	Bills Discounting	Short Term	4.25	ACUITE A4 (Assigned)
	Proposed Bank Facility	Long Term	0.50	ACUITE BB-/ 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB-/ Stable (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	4.25	ACUITE A4 (Reaffirmed)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	4.25	ACUITE A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB-/ Stable (Reaffirmed)

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About Acuité Ratings & Research:

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