

Press Release

Incotex Impex Private Limited

November 07, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs. 6.75 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable (Downgraded from ACUITE B+/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE B-**' (**read as ACUITE B minus**) from '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs. 6.75 crore bank facilities of INCOTEX IMPEX PRIVATE LIMITED. The outlook is '**Stable**'.

The downward revision in the rating is on account of deterioration in operating performance and elongation of working capital cycle. Further, the company has high reliance on working capital borrowing leading to below average financial risk profile.

The Mumbai based, Incotex Impex Private Limited (IIPL), incorporated in 1995 by Mr. Arun Todi. It is engaged in manufacturing and export of home textile products like bed sheets, cushion covers, curtains etc under the brand name of other companies.

Analytical Approach

Acuité has considered standalone business and financial risk profile of IIPL to arrive at the rating.

Key Rating Drivers

Strengths

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

IIPL was promoted by Mr. Arun Kumar Purusottamdas Todi who has experience of more than two decades in textile industry resulting in healthy relationships with customers and suppliers. IIPL also have an in-house designer team which continuously monitors changing trends and updates the designs to serve its customers.

Weaknesses

- **Below average financial risk profile**

The financial risk profile of IIPL is weak marked by below average debt protection metrics. The tangible net worth stood at Rs. 3.59 crore as on 31 March 2019 (Provisional) as against Rs. 3.54 crore as on 31 March 2018. The networth includes Rs.2.50 crore of interest free loan from promoters, being subordinate to bank debt. The gearing (debt/equity) stood at 2.77 times as on 31 March 2019 (Provisional) (PY: 2.49 times). The total debt of Rs. 9.92 crore outstanding as on 31 March 2019 (Provisional) comprises Rs. 3.07 crore as unsecured loan from the promoters and NBFCs and Rs. 6.85 crore of working capital borrowings from the bank. The interest coverage ratio stood at 1.13 times in FY2019 (Provisional) as against 1.16 times in FY2018. Total outside liabilities to tangible net worth is moderate at 3.17 times as on 31 March 2019 (Provisional) as against 3.11 times as on 31 March 2018. The net cash accruals are low at Rs. 0.08 crore in FY2019 (Provisional) as against Rs. 0.11 crore in FY2018.

Acuité believes the ability of IIPL to generate adequate cash accruals in order to repay its debt obligation will be crucial.

- **Highly working capital intensive operations**

The operations of IIPL are highly working capital intensive marked by Gross Current Asset days of 621 in FY2019 (Provisional) as against 377 days in FY2018. This is majorly on account of high inventory holding of 405 days and large receivables of 216 days in FY2019 (Provisional). The creditor days stood low at 55

days in FY2019 (Provisional) leading to higher reliance of bank borrowing for meeting working capital requirement.

Acuité believes being into textile industry the operations are expected to remain working capital intensive. The ability of the company to maintain sufficient funds for the working capital requirement will be key rating sensitivity.

Liquidity Position: Weak

The liquidity position of the company is weak. The net cash accruals of the company have been in the range of Rs.0.11- 0.08 crore during the period FY2017-19 vis-à-vis CPLTD of ~Rs.0.31-0.35 crore over the same period. The current maturities are met through USL infusion from promoters. Its accruals are expected in the range of Rs. 0.07 -0.16 crore, against which its obligations are ~0.35 crore throughout FY2020-2022. It is not planning for any significant debt funded capex. The limits are fully utilised over the last six months ended September 2019. The current ratio stood at 1.72 times as on 31st March, 2019 (Provisional).

Acuité believes that going forward, the liquidity position of the firm will continue to remain weak in the medium term on account lower turnover and cash accruals.

Material Covenants:

None

Rating Sensitivities

- Elongation in working capital cycle will be critical rating sensitivity factor.
- Improvement in turnover and subsequently net cash accrual to support working capital requirement.

Outlook: Stable

Acuité believes IIPL will continue to maintain stable outlook on account of extensive industry experience of its promoters and established relationship with reputed customers. The outlook may be revised to 'Positive' if there is a substantial increase in revenue and profitability margins, or improvement in working capital management. The outlook may be revised to 'Negative' in case of a steep decline in profitability margins, or significant deterioration in the capital structure caused most likely by a stretched working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	8.78	13.38	9.67
EBITDA	Rs. Cr.	1.02	1.01	0.98
PAT	Rs. Cr.	0.05	0.08	0.08
EBITDA Margin	(%)	11.58	7.58	10.15
PAT Margin	(%)	0.55	0.58	0.78
ROCE	(%)	7.65	9.15	9.42
Total Debt/Tangible Net Worth	Times	2.77	2.49	2.07
PBDIT/Interest	Times	1.13	1.16	1.18
Total Debt/PBDIT	Times	9.76	8.16	7.30
Gross Current Assets (Days)	Days	621	377	414

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-Jul-2019	Cash Credit#	Long Term	6.75	ACUITE B+ (Issuer not cooperating)
17-May-2018	Cash Credit#	Long Term	6.75	ACUITE B+ / Stable

***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	6.75	ACUITE B- / Stable (Downgraded from ACUITE B+/Stable)

#Sublimit-
 Book debts-Rs. 2.00 crore;
 Packing credit-Rs. 3.00 crore
 FOBP/FOUBP/FOBNLC/FOUBNLC- Rs.3.00 crore

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About Acuité Ratings & Research:

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