

Press Release

Anunay Fab Limited

October 04, 2019



Rating Downgraded and Reaffirmed

Total Bank Facilities Rated*	Rs. 85.20 Cr.
Long Term Rating	ACUITE C (Downgraded from ACUITE B+/Stable)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE C**' (**read as ACUITE C**) from **ACUITE B+/Stable (read as ACUITE B plus/ Stable)** and reaffirmed short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 85.20 crore bank facilities of ANUNAY FAB LIMITED (AFL).

The rating downgrade is driven by elongation in working capital operations marked by GCA days of 214 for FY2019 (Provisional) as against 189 for FY2018. This has led to high utilization of working capital limits and low cushion between net cash accruals (NCA) and maturing debt obligations. NCA stood at Rs. 3.00 crore for FY2019 (Provisional) as against maturing debt obligations of Rs. 3.26 crore for the same period.

AFL was promoted in 1994 by Mr. Purshottam Agrawal and Mr. Anjani Agarwal and is engaged in the manufacturing of home textile products. Over 90 per cent of total revenue of the company is being contributed by bedsheets. It is also engaged in the trading of grey cloth. The company purchases grey fabric, which is processed on job work basis. The company then cuts and stitches the processed material to bedsheets, and packages the same. More than 50 per cent of the revenue is received from exports.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

The promoters of the company, Mr. Purshottam Agrawal and Mr. Anjani Agarwal, have more than two decades of experience in the textile industry. This has helped AFL to establish healthy relationships with customers and suppliers in the industry.

Weaknesses

- **Average financial risk profile**

The company has followed an aggressive financial policy in the past, the same is reflected through its peak gearing levels of 3.32 times as on March 31, 2017. The leverage levels have marginally improved to around 2.88 times as on March 31, 2019 (Provisional). The company generated cash accruals in the range of Rs.2.26- 3.00 crore over the same period. Lower accruals and accretions to reserves led to higher debt levels as on March 31, 2019 (Provisional). The gearing however is expected to remain high at around 2.78 times as on March 31, 2020 as accretion to reserves during the same period is likely to remain modest. The revenues of the company have remained stagnant at Rs. 301.76 crore as against Rs. 304.12 crore, while its operating margins remained stable in the range of 4.09 to 4.33 per cent. The low profitability coupled with high gearing level has led to below average debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were modest at 0.03 times and 1.32 times, respectively.

- **Working capital intensive nature of operations**

The operations of AFL are working capital intensive marked by GCA days of 214 days for FY2019 (Provisional) as compared to 189 days in FY2018. The GCA days are mainly dominated by high inventory days of 119 days in FY2019 (Provisional) compared to 117 days in FY2018. The debtor days also increased to 93 days in FY2019 (Provisional) as compared to 61 days for FY2018 on account of longer credit terms being offered to domestic customers by the company. The average cash credit utilization for the last three months ended August 2019 stood at ~95 percent. Acuité believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Liquidity position

AFL has stretched liquidity marked by low net cash accruals to maturing debt obligations. AFL generated cash accruals of Rs. 2.3 to 3.0 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs. 1.7 to 3.2 crore for the same period. The cash accruals of AFL are estimated to remain around Rs. 4.1 to 4.6 crore during 2019-21 while its repayment obligations are estimated to be around Rs. 3.0 crore per annum. AFL maintains unencumbered cash and bank balances of Rs. 0.35 crore as on March 31, 2019 (Provisional). The current ratio of AFL stood healthy at 1.18 times as on March 31, 2019 (Provisional). AFL is not likely to incur any major capex to be funded by external borrowing in the medium term. Acuité believes that the liquidity of AFL is likely to remain stretched over the medium term on account of low growth in cash accruals and fixed repayment obligations over the medium term.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	301.76	304.12	316.16
EBITDA	Rs. Cr.	13.07	13.02	12.93
PAT	Rs. Cr.	0.60	0.55	0.50
EBITDA Margin	(%)	4.33	4.28	4.09
PAT Margin	(%)	0.20	0.18	0.16
ROCE	(%)	8.08	7.67	8.40
Total Debt/Tangible Net Worth	Times	2.88	3.12	3.32
PBDIT/Interest	Times	1.32	1.32	1.24
Total Debt/PBDIT	Times	7.37	8.04	8.46
Gross Current Assets (Days)	Days	214	189	207

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

Not applicable.

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
24-Aug-2018	Cash Credit	Long Term	79.20	ACUITE B+ / Stable (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A4 (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	79.20	ACUITE C (Downgraded from ACUITE B+/Stable)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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