

Press Release

Anunay Fab Limited

February 03, 2020



Rating Reaffirmed and Upgraded

Total Bank Facilities Rated*	Rs.85.20 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE C**' (read as **ACUITE C**) and reaffirmed the 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 outlook is '**Stable**'.

The upgrade is on account of timely servicing of the debt repayment obligation and curing of the default.

Gujarat-based, AFL was incorporated in 1994. The company manufactures made-up home textile products, largely bedsheets. AFL is also engaged in the trading of grey cloth. The company purchases grey fabric, which is processed on job work basis. The company generates over 50% of revenue from exports.

Analytical Approach

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

Key Rating Drivers

Strengths

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

AFL was incorporated in 1994. The directors of the company, Mr. Purshottam Agarwal and Mr. Anjani Agarwal have an experience of more than two decades in the aforementioned line of business. The experience of management has helped the company to develop healthy relationships with customers and suppliers.

Acuite believes that AFL will sustain its existing business profile backed by experienced management.

Weaknesses

- **Average financial risk profile**

AFL has average financial risk profile marked by modest net worth, high gearing and average debt protection metrics. The net worth stood at Rs.34.10 crore as on 31 March, 2019 as against Rs.33.67 crore as on 31 March 2018 due to modest accretion to reserves. The firm has followed an aggressive financial policy in the past; the same is reflected through its gearing levels of 3.07 times as on March 31, 2018. The gearing improved to 2.72 times as on March 31, 2019. Further, the interest coverage ratio stood at 1.23 times for FY2019 as compared to 1.32 times for FY2018. Total outside liabilities to total net worth (TOL/TNW) stood high at 5.13 times as on 31 March 2019.

Acuite believes that financial risk profile of the firm is likely to remain average over the medium term, on account of high gearing and average debt protection metrics.

- **Working capital intensive nature of operations**

The operations of the company are working capital intensive marked by gross current assets (GCA) of 231 days in FY2019 as compared to 189 days in FY2018. This is on account of high debtor collection period of 98 days in FY2019 as against 61 days in FY2018 due to longer payment realization. The inventory holding period remained high at 130 days in FY2019 as against 117 days in FY2018. The stretch in working capital has led to the higher reliance on external bank limits depicted by the average banks limit utilization of ~84 percent for the past six months ended December 2019.

Acuite believes that the working capital operations of the company will continue to remain intensive over the medium term on account of elongated debtor collection period and high inventory holding period.

Liquidity position: Poor

AFL has poor liquidity marked by low net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.02 crore for FY2019 with debt repayment obligation of Rs.4.29 crore for the same period. The cash accruals of AFL are estimated to remain in the range of around Rs.1.93 crore to Rs.2.41 crore during 2020-22 against debt repayment obligations of ~Rs.4.80 crore in the same period. AFL's working capital operations are intensive marked by gross current asset (GCA) of 231 days for FY2019. The average bank limit utilization for the past six months ended December 2019 remained ~84 per cent. The company maintains unencumbered cash and bank balances of Rs.0.33 crore as on 31 March 2019. The current ratio stood at 1.14 times as on 31 March 2019. Acuite believes that the liquidity of the company is likely to remain poor on account of low cash accrual against debt repayments over the medium term.

Rating Sensitivities:

- Substantial improvement in profitability margins.
- Stretch in working capital cycle leading to increased reliance on working capital borrowings

Material Covenants

None

Outlook: Stable

Acuite believes that the company will maintain a 'Stable' outlook on account of experienced management. The outlook may be revised to 'Positive' in case of significant improvement in working capital operations while, maintaining revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in scale of operations or profitability or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	301.66	304.12
PAT	Rs. Cr.	0.45	0.55
PAT Margin	(%)	0.15	0.18
Total Debt/Tangible Net Worth	Times	2.72	3.07
PBDIT/Interest	Times	1.23	1.32

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
04-Oct-2019	Cash Credit	Long term	79.20	ACUITE C (Downgraded)
	Letter of Credit	Short term	6.00	ACUITE A4 (Reaffirmed)
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 B+ / Stable (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuited.in Stuti Fomra Analyst - Rating Operations Tel: 011-49731309 stuti.fomra@acuited.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuited.in

About Acuité Ratings & Research:

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