

Press Release

Opera Clothing Private Limited

January 22, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 23.50 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 23.50 crore bank facilities of Opera Clothing Private Limited (OCPL). The outlook is '**Stable**'.

OCPL was established as a partnership firm in 1993 and later converted to private limited in 2008 by Mr. Anil Jain, Mr. Chandrakumar Jain and Mr. Chetankumar Jain (Directors). The company has three manufacturing units situated at Vapi, Daman and Umargaon (Gujarat) with an installed capacity to manufacture 10,000 garments per day. OCPL is engaged in manufacturing of woven and knitted garments such as shirts and t-shirts for men and women. OCPL exports garments to US and Russia which is 80 percent of the revenue mix and remaining in the domestic market to Future group, Trends, Killer and Radisson to name a few.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Opera Clothing Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

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

OCPL was established in 1993, thereby establishing track record for more than two decades. The company has developed healthy relationship with its customers and suppliers. Acuité believes that OCPL will sustain its existing business profile on the back of established track record and experienced management in the textile industry.

Weaknesses

- **Moderate scale of operations**

OCPL has moderate scale of operations marked by operating income of Rs.63.24 crore in FY2018 as against Rs.80.31 crore in FY2017 and Rs.68.53 crore in FY2016. The revenues declined in FY2018 on account of GST implementation and intense competition in the textile industry. Further, the company has registered revenues of Rs.35.00 crore for the period April to December, 2018 (Provisional). The company has moderate profitability wherein the operating margin improved to 7.00 percent in FY2018 as against 5.61 percent in FY2017. The reason for increase in operating margins is on account of decline in job work cost in FY2018 over FY2017. Acuité believes that the ability of OCPL to maintain its revenue streams and profitability over the medium term will be key rating sensitivity.

- **Average financial risk profile**

The financial risk profile of OCPL is average marked by small net worth, high gearing, and moderate debt protection metrics. The tangible net worth stood at Rs.3.95 crore as on 31 March, 2018 as against Rs.2.84 crore as on 31 March, 2017. The debt/equity ratio stood high at 7.40 times as on 31 March, 2018 as against 10.90 times as on 31 March, 2017. The total debt of Rs.29.25 crore outstanding as on 31 March, 2018 comprises Rs.4.32 crore as unsecured loans from the promoters and Rs.24.93 crore as

working capital borrowing from the bank. The interest coverage ratio (ICR) stood moderate at 2.05 times in FY2018 as against 1.99 times in FY2017. Total outside liabilities to tangible net worth (TOL/TNW) stood high at 12.68 times as on 31 March, 2018 as against 18.69 times as on 31 March, 2017, majorly on account of high trade payables and working capital borrowings. The net cash accruals stood moderate at Rs.2.28 crore in FY2018 as against Rs.1.99 crore in FY2017. However, the company has no long term debt obligation. Acuité believes that the ability of the company to maintain its credit profile will be key rating sensitivity.

• Working capital intensive operations

The operations of OCPL are highly working capital intensive marked by Gross Current Assets (GCA) of 183 days in FY2018 as against 157 days in FY2017. This is majorly on account of stretched receivables of 149 days in FY2018 as against 117 days in FY2017. The company gets extended credit period from its suppliers which moderates the working capital requirement. The average bank limit utilisation stood at ~85 percent for the last six months ended December 2018. The current ratio stood below average at 0.72 times in FY2018 as against 0.74 times in FY2017. The ability of the company to maintain sufficient funds for the working capital requirement will be key rating sensitivity.

• Susceptibility of profitability margins to foreign exchange risk

Around 80 percent of the turnover of OCPL is generated through exports to different countries such as Russia, Germany, Greece, the US, and UK and the imports stood minimal around 20 percent of the total raw material procurement. Any adverse change in the exchange rates may impact the scale of operations and the profitability margins of the OCPL.

Outlook: Stable

Acuité believes that OCPL will maintain 'Stable' outlook over the medium term on the back of established operations and long standing experience of the promoter in the business. The outlook may be revised to 'Positive' in case of significant improvement in the company's scale of operations and accruals, while maintaining its debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in profitability and accruals, or larger than expected debt funded capex.

Liquidity Position

OCPL has moderate liquidity marked by moderate net cash accruals with no long term debt obligations. The net cash accruals stood moderate at Rs.2.28 crore in FY2018 as against Rs.1.99 crore in FY2017. The accruals of the company are estimated to remain in the same range over the medium term. The company's operations are highly working capital intensive marked by Gross Current Assets (GCA) of 183 days in FY2018. This has led to moderate utilization of working capital borrowings with bank limit utilisation of ~85 per cent for the last six months ended December 2018. The current ratio stood below average at 0.72 times in FY2018 as against 0.74 times in FY2017. Acuité believes that the liquidity of the company is likely to remain working capital intensive on account of stretched receivables.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	63.24	80.31	68.53
EBITDA	Rs. Cr.	4.43	4.50	3.01
PAT	Rs. Cr.	1.11	0.80	0.51
EBITDA Margin	(%)	7.00	5.61	4.39
PAT Margin	(%)	1.76	0.99	0.74
ROCE	(%)	9.82	10.27	7.45
Total Debt/Tangible Net Worth	Times	7.40	10.90	14.11
PBDIT/Interest	Times	2.05	1.99	2.34
Total Debt/PBDIT	Times	6.50	6.78	8.72
Gross Current Assets (Days)	Days	183	157	146

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

CRISIL Limited, vide its press release dated December 28, 2017 had denoted the rating of Opera Clothing Private Limited as 'CRISIL BB-(ISSUER NOT COOPERATING)' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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)

Not Applicable

***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	0.50	ACUITE B+ / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A4
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE B+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4

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About Acuité Ratings & Research:

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