Press Release

Best Sellers Apparels Private Limited

July 05, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 47.59 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** and short term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs. 47.59 crore bank facilities of Best Sellers Apparels Private Limited (BSPL). The outlook is **'Stable'**.

Established in 2005, Best Sellers Apparels Private Limited (BSPL) is engaged in manufacturing of denims bottom wear for large brands such as Pepe Jeans, Spykar, Mufti, Benetton, among others. The company has three manufacturing facilities in and around Manipal with combined capacity of 21 lacs garment per annum. BSPL is promoted by Mr. Sachin Pai, grandson of Mr. TMA Pai, the founder of the Manipal Group.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of BSPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experience of promoters and established track record of operations**

  The promoters of BSPL have been associated with the textile industry since 2000. The chief promoter, Mr. Sachin Pai belongs to the Pai family of Manipal, who are reputed for their contribution to the fields of education and health care. Through the long-standing presence of the company, the promoters have developed a deep understanding of the finer nuances of the jeans manufacturing industry. It also helped them build strong relationship with reputed customers such as Spykar Jeans, Pepe Jeans, Benetton, Mufti, among others, which resulted in moderate growth in revenues at a compound annual growth rate (CAGR) of 10.23 percent over three years ending FY2019. Further, for the past three months ended June 2019, it has reported revenues of about Rs.27 crore with and outstanding order book of Rs.48.00 crore, showing adequate revenue visibility.

  BSPL's major revenues are from domestic market, though it has modest presence in overseas with revenue contribution of about 20 per cent. BSPL's revenues are well spread across, though there is a revenue concentration of about 23.50 per cent with Arvind Fashions Limited which is partly mitigated through long-standing relationship and quality deliverables to meet the client's requirements and timely upgradation of the processing facilities. Acuité believes that BSPL's efforts to diversify, continuous investment on the facilities will continue to benefit besides promoters' standing in improving its business risk profile over the medium term.

- **Comfortable financial risk profile**

  Financial risk profile of the company is comfortable marked by comfortable gearing, moderate total outside liabilities to total net worth (TOL/TNW) as well as comfortable debt protection metrics. Gearing is comfortable at 1.50 times as on 31 March, 2019 (provisional) as against 1.58 times as on 31 March, 2018. TOL/TNW is moderate at 2.20 times as on 31 March, 2019 (provisional) as against 2.37 times as on 31 March, 2018. Acuité has treated the unsecured loans from promoters of Rs.6.00 crore as quasi-equity. Of the total debt of Rs.29.52 crore as on 31 March, 2019 (provisional), long term debt constitutes Rs.4.63 crore and short term debt of Rs.24.89 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 2.73 times and 0.14 times respectively in FY2019 (provisional). The company reported cash accruals of Rs.4.18 crore for FY2019 (provisional).

Further, the repayment obligations are expected to be in the range of Rs.1.00-1.50 crore against annual cash accruals of about Rs.4.00-7.00 crore over the medium term. Acuité believes that with expected improvement in revenues and growth in profitability, the financial risk profile is expected to improve over the medium term.

Weaknesses

- **Moderate working capital operations**

BSPL's operations are moderately working capital intensive as evident from Gross Current Assets (GCA) of 153 days as on March 31, 2019 (provisional) as against 125 days as on March 31, 2018. Its working capital cycle is stretched at 74 days in FY2019 (provisional) as against 47 days in FY2018. This is primarily due to increase in receivable days (FY19: 74; FY18:49). The company avails a credit period of about three months with 78 days in FY2019 and 77 days in FY2018. High receivables led to high utilisation of its bank lines at about 96 per cent over the past six months through March 2019. Moderate accruals vis-à-vis maturing obligations are expected to support the incremental working capital requirements of BSPL. However, Acuité believes that BSPL's operations continue to be working capital intensive basis the business cycle.

- **Highly fragmented and competitive industry**

The ready-made garment industry is highly fragmented with several organised and unorganised players, thereby impacting the company's margins.

Liquidity Profile:

Liquidity profile of BSPL is adequate reflected by adequate cash accruals vis-à-vis its repayment obligations. It has reported cash accruals of Rs.4.16 crore in FY2019 (provisional). It is expected to generate cash accruals in the range of Rs.4.00-7.00 crore over the medium term against which its repayment obligations are about Rs.1.00-1.50 crore and regular annual capex of about Rs.1.00-1.50 crore on account of machine modernisation and capacity enhancement for which it has adequate headroom. However, liquidity is partly constrained by its working capital limits which are highly utilised at about 96 per cent for the last six months through March 2019. The current ratio stood moderate at 1.20 times in FY2019 (provisional). Acuité believes that though cash accruals are adequate, however, managing the working capital intensive operations is a key rating sensitivity factor amidst growing scale of operations.

Outlook: Stable

Acuité believes that BSPL will continue to maintain a 'Stable' outlook over the medium term owing to the extensive experience of its promoters and established track record of operations. The outlook may be revised to 'Positive' in case of significant improvement in its topline while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' if there is a significant stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	106.25	94.15	76.61
EBITDA	Rs. Cr.	8.59	8.54	6.29
PAT	Rs. Cr.	2.49	2.16	1.65
EBITDA Margin	(%)	8.09	9.07	8.21
PAT Margin	(%)	2.34	2.30	2.16
ROCE	(%)	15.02	18.82	30.57
Total Debt/Tangible Net Worth	Times	1.58	2.19	2.23
PBDIT/Interest	Times	2.55	2.72	2.88
Total Debt/PBDIT	Times	2.95	2.89	3.25
Gross Current Assets (Days)	Days	125	137	126

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-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)
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	16.00	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	7.59	ACUITE BBB- / Stable
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3

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About Acuité Ratings & Research:
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