

Press Release

Best Sellers Apparels Private Limited

September 22, 2020



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the 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**'.

The rating reaffirmation draws comfort from the extensive experience of BSPL promoters and its established relationship with a reputed clientele in the readymade garment (RMG) industry, ensures repeat orders and expected stability in its revenues over the medium term. The ratings, however, remain constrained by BSPL's moderate and stagnant scale of operations, moderate financial profile, and high working capital intensity. Moreover, the revenue and profitability is likely to decline in FY2021 due to subdued demand outlook in the RMG industry and imposition of lockdown following the Covid-19 pandemic. Acuité believes that with adequate unutilised capacity, continuous orders from its reputed customers and cost optimization measures will support the business risk profile to improve over the medium term.

Best Sellers Apparels Private Limited (BSPL) is a Manipal (Udupi), based company incorporated in 2005, by Mr. Sachin Pai, grandson of Mr. TMA Pai, the founder of the Manipal Group. BSPL is engaged in manufacturing of denim 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 a combined capacity of 1.80 lacs garment per month.

Analytical Approach

Acuité has taken the 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. The top management is supported by well-experienced technical and marketing team. It also helped them build a strong relationship with reputed customers such as Spykar Jeans, Pepe Jeans, Benetton, Mufti, various Arvind Group brands, among others. BSPL's major revenues are from the domestic market. Acuité believes that the industry experience and domain knowledge of the management and reputed clientele are expected to support in improving its business risk profile over the medium term.

Weaknesses

- **Moderate financial risk profile**

BSPL's financial risk profile is moderate, is aided by a moderate networth, high gearing and high TOL/TNW and moderate debt protection metrics. The net worth of the company is at Rs.16.89 Crore as on 31 March, 2020 (provisional) as against 15.68 crore as on as on 31 March, 2019. Gearing is high at 2.10 times as on 31

March, 2020 (provisional) as against 2.05 times as on 31 March, 2019. TOL/TNW is high at 3.10 times as on 31 March, 2020 (provisional) as against 2.98 times as on 31 March, 2019. The debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 1.79 times and 0.10 times respectively in FY2020 (provisional) vis-à-vis 2.10 times and 0.11 times respectively in FY2019. The company reported cash accruals of Rs.3.38 crore for FY2020 (provisional). It is expected to generate cash accruals in the range of Rs.2.50-4.00 crore during FY21-23 against which its repayment obligations are about Rs.1.25-1.60 crore during the same period.

Acuité believes that the financial risk profile of the company is expected to remain moderate over the medium term on account of no significant capex plans over the medium term.

• Moderate working capital operations

BSPL's operations are moderately working capital intensive as reflected by the Gross current assets (GCA) days at of 125-185 days over the past three fiscals ended with March 31, 2020 (provisional). This is mainly on accounts of the high inventory holding period of 75-107 days over the past three fiscals ended with March 31, 2020 (provisional). The company has debtors' days of 49-76 days over the past three fiscals ended with March 31, 2020 (provisional). On the other hand, the company gets less credit of around 77-101 days from its suppliers during the past three fiscals ended with March 31, 2020 (provisional). High receivables and high inventory holding led to high utilisation of its bank lines at about 99 per cent over the past six months through August 2020. Acuité believes that the operations of the BSPL to remain working capital intensive over the medium term.

• Susceptibility of profitability to volatility in raw material prices and exposed to intense competition

Operations are susceptible to sharp fluctuations in prices of raw materials, i.e. cotton fabric/printed fabric. Due to seasonal pricing of cotton, huge inventory has to be maintained at times. Profitability is vulnerable to any sharp movement in raw material prices, despite the ability to pass on the rise in input cost to customers. The knitted garment industry in India is highly fragmented and competitive, marked by low entry barriers and the presence of a large number of organised and unorganised players. BSPL is exposed to intense competition from established domestic players in the market

Liquidity Profile: Adequate

Liquidity profile of BSPL is adequate, reflected by adequate cash accruals vis-à-vis its repayment obligations. Reported cash accruals of Rs.3.38 crore for FY2020 (provisional). BSPL has reported cash accruals of Rs.3.38 crore in FY2020 (provisional). It is expected to generate cash accruals in the range of Rs.2.50-4.00 crore during FY21-23 against which its repayment obligations are about Rs.1.25-1.60 crore during the same period. Its regular annual capex of about Rs.1.00-1.50 crore on account of machine modernisation. However, liquidity is constrained by its working capital limits which are highly utilised at about 99 per cent for the last six months through August 2020. The current ratio stood moderate at 1.08 times March 31, 2020 (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.

Rating Sensitivities

- Significant improvement in scale of operations, while improving its profitability margins
- Any further large debt-funded capital expenditure, impacting the financial risk profile adversely.
- Stretch in the working capital cycle

Material covenants

None

Outlook: Stable

Acuité believes that BSPL will maintain a 'Stable' outlook in the medium term backed by its promoter's extensive experience and established relations with customers. The outlook may be revised to 'Positive' in case of a significant improvement in its revenues while maintaining the profitability and capital structure. Conversely, the outlook may be revised to 'Negative' if there is any steep decline in the company's revenue or profitability or further deterioration in the working capital cycle, or leading to further weakening of its current ratio, or any significant debt-funded capital expenditure leading to the deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	97.43	102.73
PAT	Rs. Cr.	1.23	1.07
PAT Margin	(%)	1.26	1.04

Total Debt/Tangible Net Worth	Times	2.10	2.05
PBDIT/Interest	Times	1.79	2.10

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
05-July-2019	Cash Credit	Long Term	16.00	ACUITE BBB-/Stable (Assigned)
	Term loans	Long Term	7.59	ACUITE BBB-/Stable (Assigned)
	FBN/FBP/FBD/PSFC/FBE	Short Term	15.00	ACUITE A3/Stable (Assigned)
	Letter of credit	Short Term	9.00	ACUITE A3/Stable (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	16.00	ACUITE BBB- / Stable (Reaffirmed)
Term loans	29-08-2020	Not Applicable	30-09-2023	3.64 (Revised from Rs.7.59 Cr.)	ACUITE BBB- / Stable (Reaffirmed)
ODAP	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB- / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00 (Revised from Rs.7.59 Cr.)	ACUITE A3 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	13.95	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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