

Press Release

Best Sellers Apparels Private Limited

December 23, 2021



Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Ratings Loan	23.37		ACUITE A3 Reaffirmed
Bank Ratings Loan	9.00	ACUITE BBB- Reaffirmed & Withdrawn	
Bank Ratings Loan	24.22	ACUITE BBB- Stable Reaffirmed	
Total	47.59	-	-

Rating Rationale

Acuite has reaffirmed the 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**'.

Also, Acuite has withdrawn the long term rating the '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 9.00 crore bank facilities of BSPL.

Rationale for Rating Reaffirmation

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 scale of operations moderate financial profile, and high working capital intensity. The revenue and profitability declined in FY2021 due to subdued demand outlook in the RMG industry and imposition of lockdown following the Covid-19 pandemic. Acuite 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.

About the Company

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

Acuite 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

The company has moderate financial risk profile marked by low net worth, moderate gearing and low debt protection metrics. The net worth stood at Rs.16.20 crore as on 31 March, 2020 as against Rs.15.68 crore on 31 March, 2019. In FY21 (Prov) the net worth was around 15.28. The firm's gearing was at 1.48 times as on 31 March, 2021 as against 2.20 times in the FY2020. The debt of Rs.22.69 as on FY2021 mainly consists long term debt of Rs.6.32, and short term debt Rs.14.37 crore. The debt protection metrics was moderate marked by Interest Coverage Ratio of 1.29 times in FY2021 as against 1.82 times in FY2021. Further NCA/TD stood at 0.06 for FY2021 as against 0.10 times for FY2021. The company reported cash accruals of Rs.1.37 crore for FY2021 (provisional). 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.

• Intensive operations of Working capital management

The firm has working capital intensive operations marked by Gross Current Assets (GCA) of 206 days in FY2021 (Provisional) as against 187 days in FY2020. The reason for such high in GCA days is majorly on account of high inventory holding period of around 75-160 days in FY2021 and FY2020. The company operates in highly competitive industry and provides credit period of 138 days for FY2021 as compared to 116 days for FY2019 to its customers. The company maintains inventory of 151 days for FY2021 and 107 days for FY2019. The company has debtors' days of 50-78 days over the past three fiscals ended with March 31, 2021 (provisional) High receivables and high inventory holding led to high utilization of its bank lines at about 93 per cent over the past six months through September 2021. 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

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.
- Further Deterioration in working capital management leading to stretched liquidity

Material covenants

None

Liquidity Position: Stretched

The firm has stretched liquidity marked by low net cash accruals of Rs. 1.37 crore. Gross Current Asset (GCA) days stood high at 206 days for FY2021. The average cash credit utilization stood at 93 percent cent for the last seven months ended September 2021. The current ratio stood at 1.20 times as on FY2021. Acuité believes that the liquidity of the firm is likely to remain stretched over the medium term on account of low profitability and declining scale of operations

Outlook: Stable

Acuité believes that BSPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and reputed clients. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	64.81	97.41
PAT	Rs. Cr.	(0.97)	0.70
PAT Margin	(%)	(1.50)	0.72
Total Debt/Tangible Net Worth	Times	1.48	2.20
PBDIT/Interest	Times	1.29	1.82

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>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Sep 2020	Bills Discounting	Long Term	9.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	3.64	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	13.95	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	16.00	ACUITE BBB- Stable (Reaffirmed)
05 Jul 2019	Bills Discounting	Long Term	15.00	ACUITE A3 Stable (Assigned)
	Cash Credit	Long Term	16.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	7.59	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Long Term	9.00	ACUITE A3 Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
NKGSB Cooperative Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BBB- Stable Reaffirmed
NKGSB Cooperative Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 Reaffirmed
NKGSB Cooperative Bank Ltd	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB- Reaffirmed & Withdrawn
ICICI Bank Ltd	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	18.37	ACUITE A3 Reaffirmed
NKGSB Cooperative Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	1.21	ACUITE BBB- Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	0.72	ACUITE BBB- Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	5.49	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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