

Press Release

Ammayapper Textiles Private Limited

D-U-N-S® Number: 91-651-2348

August 20, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 40.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite 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. 40.00 crore bank facilities of AMMAYAPPER TEXTILES PRIVATE LIMITED (ATPL). The outlook is '**Stable**'.

AMMAYAPPER TEXTILES PRIVATE LIMITED (ATPL) is a Thiruvallur-based company established in 2005 by Mr. Veluchamy Haridoss, Mr. Haridoss Karthikeyan, Mr. Senthil Velu and Mrs. Karthikeyan Ramya. ATPL is engaged in manufacturing and selling or exporting of readymade garments mainly for infants to 12 years old. The company exports its products to regions such as United Kingdom, Dubai, Hong Kong, among others. The company has four manufacturing units located in and around Thiruvallur (Tamil Nadu) with an installed capacity to manufacture 75 lakhs pieces/annum.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experience of promoters and established track record of operations

The promoters have experience of nearly two decades in the garment industry. ATPL is an established manufacturer and exporter of garments, having an operational track record of nearly two decades. It features among one of the organised exporters of Kids wear with its products. The top management is supported by well-experienced technical and marketing team. The company caters to international fashion houses in the United Kingdom and other territories including Mothercare UK Ltd, Tesco International Sourcing Ltd, Sainsbury's Supermarkets Ltd, Debenhams Retail Plc, RNA Resources (Baby Shop Concept), WM Morrison Super Markets Plc, Max Holdings And Investments Ltd, Matalan Retail Limited, among others. About 75 per cent of its revenues are from overseas markets and rest from domestic markets; with supplies to reputed clientele of Aditya Birla, Future Retail, Reliance, Arvind Lifestyle, among others. Established relationship with reputed customers has resulted in moderate growth in revenues at a compound annual growth rate (CAGR) of 21.71 per cent over three years ending FY2019 with revenues of Rs.229.06 crore. Acuite 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.

• Moderate financial risk profile, though improving

The financial risk profile of the company is moderate marked by high gearing, total outside liabilities to total net worth (TOL/TNW) as well as comfortable debt protection metrics. Its gearing and total outside liabilities to tangible network (TOL/TNW) are moderate at 2.59 and 3.6 times as on March 31, 2019 (provisional), significant improvement from 3.45 and 5.36 time in FY2018. ATPL has incurred significant amount of debt-funded capex to setup new plant at R.K.PET, Thiruvallur, Tamil Nadu of about Rs.40 crore over the last two years through FY2019; it was funded out of term loan of about Rs.22 crore and rest out of internal accruals and USL's. The capex was for enhancing the processing capacity from 45 lakhs pieces to 75 lakhs pieces and modernisation of the unit to meet the clients' requirements, who are quality conscious. Continuous debt-funded capex, incremental working

capital for the revenue growth lead to weak current ratio at below 1 time during FY2017 and 2018. However, the same has considerably improved from 0.88 in FY2018 to 1.09 times in FY2019 (provisional). Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 2.62 and 0.18 times, respectively, in FY2019 (provisional). The company reported cash accruals of Rs.14.07 crore for FY2019 (provisional). Further, repayment obligations are expected to be in the range of Rs.5-6 crore against annual cash accruals of about Rs.14-19 crore. Acuite believes that with expected improvement in revenues, growth in profitability, healthy cushion in its accruals vs obligations and moderation in capex, the financial risk profile is expected to improve over the medium term.

Weaknesses

• Moderate working capital operations

Operations of the company are moderate lead by inventory and receivables management of about two months with GCA of 125 days in FY2019 against 152 days in FY2018. Despite moderation in GCA, the limits are highly utilised at about 93 per cent over past six months through June 2019 owing to large debt-funded capex in the capex over the past two years. Moreover, the payable days stretch in to about 78 days in FY2019 (provisional) against 146 days in FY2018; Acuite believes that ATPL's operations continue to be working capital intensive basis the business cycle

• Susceptibility of profitability to volatility in raw material prices, forex rates and exposure 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 rise in input cost to customers. ATPL is also susceptible to forex rate fluctuations as its exports are at 60 per cent of its products. However, the company hedges its forex exposure through forward contracts. Low entry barriers have also resulted in high fragmentation in the fabric and ready-made garments industry. This lead to volatile operating margins with oscillation of over 100 basis points over the past three years. Consequently, margins of smaller organised players remain vulnerable to pricing pressure and intense competition.

Outlook: Stable

Acuite believes that ATPL 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 significant improvement in its revenues while maintaining the profitability and capital structure. Conversely, the outlook may be revised to 'Negative' if there is any stretch in its working capital cycle further leading to weakening of its current ratio, or any significant debt funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

Liquidity Position

Liquidity profile of ATPL is adequate marked by adequate accruals to repayment obligations though limits are highly utilised. ATPL has reported cash accruals of Rs.14.07 crore in FY2019 (provisional). It is expected to generate cash accruals in the range of Rs.15 - 20 crore during FY20-22 against which its repayment obligations are about Rs.5-6 crore during the same period. Its working capital limits are highly utilised at about 93 per cent for the last six months through June 2019. The current ratio stood weak historically stood at 1.09 times in FY2019 (provisional) as against 0.88 times in FY2018 and 0.87 times in FY2017. Acuite believes that though cash accruals are adequate, however, working capital intensive operations continue to constrain the liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	229.06	163.85	151.00
EBITDA	Rs. Cr.	26.08	20.23	16.60
PAT	Rs. Cr.	4.90	3.53	3.83
EBITDA Margin	(%)	11.39	12.34	10.99
PAT Margin	(%)	2.14	2.15	2.53
ROCE	(%)	17.57	17.55	23.58
Total Debt/Tangible Net Worth	Times	2.59	3.45	2.11
PBDIT/Interest	Times	2.62	3.03	3.24
Total Debt/PBDIT	Times	2.93	3.30	2.03
Gross Current Assets (Days)	Days	125	152	104

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

CRISIL, vide its press release dated August 09, 2018 had denoted the rating of Ammayapper Textiles Private Limited as CRISIL BB/Stable/CRISIL A4+ Issuer not cooperating on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CRISIL BB/Stable/CRISIL A4+' vide its press release dated January 22, 2016.

Any other information

Not Applicable

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	1.65	ACUITE BBB- / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BBB- / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	8.35	ACUITE A3
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3
Term loans	Not Applicable	Not Applicable	Not Applicable	3.15	ACUITE BBB- / Stable
Proposed Bills Discounting	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A3
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.35	ACUITE A3

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>Bhavani Sankar Senior Analyst - Rating Operations Tel: 040-40055452 bhavanisankar.oruganti@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-4929 4011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings 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 6,000 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to Ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.