

## Press Release

### Ammayapper Textiles Private Limited

November 05, 2020

### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs.40.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Stable (Reaffirmed)
<b>Short Term Rating</b>	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. 40.00 crore bank facilities of Ammayapper Textiles Private Limited (ATPL). The outlook is '**Stable**'.

The rating reaffirmation considers the expected steady operational performance, supported by its established market position and extensive experience of its promoters, long relationship with leading international and domestic players, ensures repeat orders and expected stability in its revenues over the medium term. The ratings, however, remain constrained by ATPL's moderate financial profile and high working capital intensity in the business, vulnerable to foreign exchange rate fluctuations and intense competition.

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 exporting of readymade garments mainly for infants to 12 years old. The company has four manufacturing units located in and around Thiruvallur (Tamil Nadu) with an installed capacity to manufacture 85 lakhs pieces/annum. The company exports its products to regions such as the United Kingdom, Dubai, Hong Kong, among others and generates about 70 per cent of its revenues are from overseas markets and rest from domestic markets.

### Analytical Approach

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

### Key Rating Drivers

#### Strengths

- **Extensive experience of promoters and strong customer base**

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 70 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 18.52 per cent over four years ending FY2020 with revenues of Rs.251.10 Cr. 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.

- **Moderate financial risk profile**

Financial risk profile of the company is moderate marked by high gearing, high total outside liabilities to

total net worth (TOL/TNW) as well as moderate debt protection metrics. Gearing is high at 2.96 times as on 31 March, 2020 (provisional) as against 2.84 times as on 31 March, 2019. TOL/TNW is high at 4.01 times as on 31 March, 2020 (provisional) as against 2.98 times as on 31 March, 2019. Networth is moderate at Rs.30.08 Crore as on 31 March, 2020 (provisional) as against 27.08 crore as on as on 31 March, 2019. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 2.27 times and 0.16 times respectively in FY2020 (provisional) vis-à-vis 2.63 times and 0.19 times respectively in FY2019. ATPL generated cash accruals of Rs.12-15 crore during last three years ended through FY2020 (provisional), while its maturing debt obligations are Rs.4-6 Cr during the same period. The cash accruals of the ATPL's are estimated to remain around Rs.12-15 crore during 2021-23, while its repayment obligations are estimated to be around Rs.5-7 crore over the same period. Acuité believes that with expected improvement in revenues and growth in profitability, the financial risk profile is expected to improve over the medium term on account of no significant capex plans over the medium term.

### Weaknesses

#### • Moderate working capital operations

ATPL's operations are moderately working capital intensive as reflected by Gross Current Assets (GCA) days at of 120-152 days over the past three fiscals ended through March 31, 2020 (provisional). This is mainly on accounts of the inventory holding period of 55-68 days and debtors' days of 39-74 days over the past three fiscals ended March 31, 2020 (provisional). On the other hand, the company gets less credit of around 73-146 days from its suppliers during the past three fiscals ended through March 31, 2020 (provisional). Its bank lines are highly utilised at about 94 per cent over the past nine months through September 2020. Acuité believes that the operations of the ATPL to remain working capital intensive over the medium term.

#### • Vulnerability to foreign exchange fluctuation and exposed to intense competition

The apparel industry witnesses intense competition with the presence of many players in the domestic market and growing threat from China and other low-cost manufacturing locations like Bangladesh, Vietnam, Taiwan, Cambodia, etc. The entire fashion industry is vulnerable to changing trends, consumer tastes and economic cycles, especially in European countries. Further, it is an export-oriented company, its margins are exposed to fluctuations in foreign exchange rates; however, is mitigated to an extent by the hedging policy undertaken by the company.

### Liquidity Profile: Adequate

ATPL's liquidity position remains adequate as reflected adequate net cash accruals to its maturing debt obligations and high utilisation of working capital limits. ATPL generated cash accruals of Rs.12-15 crore during the last three years ended through FY2020 (provisional), while its maturing debt obligations are Rs.4-6 Cr during the same period. The cash accruals of the ATPL's are estimated to remain around Rs.12-15 crore during 2021-23, while its repayment obligations are estimated to be around Rs.5-7 crore over the same period. However, liquidity is constrained by its working capital limits which are highly utilised at about 94 per cent for the last nine months through September 2020. The current ratio stood weak at 1.00 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 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 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.	251.10	229.01
PAT	Rs. Cr.	3.00	4.59
PAT Margin	(%)	1.20	2.00
Total Debt/Tangible Net Worth	Times	2.96	2.84
PBDIT/Interest	Times	2.27	2.63

### 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
20-August-2019	Cash Credit	Long Term	1.65	ACUITE BBB-/Stable (Assigned)
	Proposed Cash Credit	Long Term	4.50	ACUITE BBB-/Stable (Assigned)
	PC/PCFC	Short Term	8.35	ACUITE A3 (Assigned)
	FBN/FBP/FBD/PSFC/FBE	Short Term	8.00	ACUITE A3 (Assigned)
	Term loans	Long Term	3.15	ACUITE BBB-/Stable (Assigned)
	Proposed Bills Discounting	Short Term	7.50	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	3.00	ACUITE BBB-/Stable (Assigned)
	Letter of credit	Short Term	3.50	ACUITE A3 (Assigned)
	Bank guarantee	Short Term	0.35	ACUITE A3 (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	6.15	ACUITE BBB- / Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	8.35	ACUITE A3 (Reaffirmed)
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	15.50	ACUITE A3 (Reaffirmed)
Term loans	Not Available	Not Applicable	Not Available	1.60	ACUITE BBB- / Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.55	ACUITE BBB- / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A3 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	0.35	ACUITE A3 (Reaffirmed)

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**About Acuité Ratings & Research:**

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