Press Release

Ammayapper Textiles Private Limited

June 16, 2022

Rating Assigned and Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	11.15	ACUITE C | Downgraded	-
Bank Loan Ratings	14.46	ACUITE C | Assigned	-
Bank Loan Ratings	27.70	-	ACUITE A4 | Downgraded
Total Outstanding Quantum (Rs. Cr)	53.31	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

** Refer Annexure for details*

Rating Rationale

Acuité has downgraded the long-term rating to **'ACUITE C' (read as ACUITE C)** from **'ACUITE BBB-' (read as ACUITE t riple B minus)** and the short-term rating to **'ACUITE C' (read as ACUITE C)** from **'ACUITE A4' (read as ACUITE A four)** on the Rs.40.00 crore bank facilities of Ammayapper Textiles Private Limited (ATPL).

Acuité has also assigned the long-term rating of **'ACUITE C' (read as ACUITE C)** on the Rs.14.46 crore bank facilities of ATPL.

Rationale for rating downgrade:
The rating has been downgraded on account of delays for 6 days in servicing of debt (term loan facility) in May, 2022 and the account being classified as SMA-0 as indicated by the lender which indicates that the company has a stretched liquidity position. The financial risk profile is average marked by deteriorating gearing & moderate debt protection metrics and working capital intensive operations. GCA days have escalated on account of increase in receivable days.

About the Company

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 1 crore 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. The company is also involved in trading to the extent of 10-20%.

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 Retals Plc, RNA Resources (Baby Shop Concept), WM Morrison Super Markets Plc, Max Holdings And Investments Ltd, Matalan Retail Limited, among others. About 70 percent 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. The turnover improved and stood at Rs.275.27 crore in FY2022 as against Rs.231.41 crore in FY2021. The Company has export orders worth Rs.88.62 crore and domestic orders as on 68.93 crore total worth Rs.157.55 crore as on May 30, 2022 which is expected to be executed by January, 2023. This gives adequate revenue visibility over the medium term. 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.

>Improvement in the operating and profitability margins

The operating margin of the company improved and stood at 10.34 percent in FY2021 as against 9.80 percent in FY2020. The net profit margins also improved and stood at 1.26 percent in FY2021 as against 1.14 percent in FY2020. The improvement in the margins is majorly due to increase in the efficiency in the business & measures taken to reduce overall costs.

Weaknesses

>Working capital intensive operations

ATPL's working capital operations are intensive marked by Gross Current Asset days (GCA) of 166 days in FY2021 against 120 days in FY2020. This is majorly due to high receivable and payable days due to the impact of covid-19. The inventory days improved and stood at 62 days in FY2021 against 66 days in FY2020. The company maintains an average inventory holding policy of 60-70 days. The debtors' days stood at 88 days in FY2021 against 39 days in FY2020. The credit period given to customers is around 90-120 days. The creditors' days stood at 89 days in FY2021 against 86 days in FY2020. The company enjoys a credit period of 30-45 days from their suppliers. The working capital operations are improving in FY2022 & is expected to improve over the medium term.However, fund based limits remains utilized at 80-90 percent for last trailing 6 months ended May, 2022 and non-fund based limits remains utilized at 30-50 percent for last trailing 6 months ended May, 2022.
Acuité believes that the operations of ATPL are expected to remain working capital intensive over the medium term.

>Average financial risk profile

Financial risk profile of ATPL is average marked by deteriorating gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing stood at 3.18 times as on March 31, 2021 against 2.93 times as on March 31, 2020. TOL/TNW stood at 4.31 times as on March 31, 2021 against 4.08 times as on March 31, 2020. Tangible net worth of the company stood modest at Rs.33.07 crore as on March 31, 2021 against Rs.30.05 crore as on March 31, 2020. Of the total debt of Rs.105.19 crore as on March 31, 2021, long-term debt stood at Rs.16.31 crore, short-term debt stood at Rs.58.62 crore, unsecured loans stood at Rs.25.13 crore and CPLTD stood at Rs.5.12 crore. Debt

protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 2.59 times and 0.13 times respectively in FY2021; while DSCR stood at 1.54 times in FY2021.The financial risk profile is improving in FY2022 and is expected to improve 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 on account of no significant capex plans 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.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability.
- Stretch in working capital cycle and deterioration in liquidity position.

Material covenants

None

Liquidity Position: Stretched

The liquidity position of the company is stretched as demonstrated by delays in repayment of obligations. There has been delays for 6 days in servicing of debt (term loan facility) in May, 2022 and the account is classified as SMA-0 as indicated by the lender. Current position of cash accruals is at Rs.13.54 crore in FY2021 against moderate repayment obligations of Rs.5.12 crore, further, going forward in FY2022 to FY2024 the cash accruals are expected to be in the range of Rs.19.13 crore-Rs.26.73 crore against moderate repayment obligations in the range of Rs.5.13 crore-Rs.5.96 crore. Unencumbered cash and bank balances stood at Rs.6.30 crore as on March 31, 2021 with a current ratio of 1.05 times in the same period. However, fund based limits remains utilized at 80-90 percent for last trailing 6 months ended May, 2022 and non-fund based limits remains utilized at 30-50 percent for last trailing 6 months ended May, 2022.
Acuité believes that the ability of the company to maintain the liquidity position will be a key rating sensitivity.

Outlook

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	231.41	255.71
PAT	Rs. Cr.	2.91	2.92
PAT Margin	(%)	1.26	1.14
Total Debt/Tangible Net Worth	Times	3.18	2.93
PBDIT/Interest	Times	2.59	2.50

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

Not Applicable

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
- Trading Entitie: https://www.acuite.in/view-rating-criteria-61.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
05 Nov 2020	Term Loan	Long Term	1.60	ACUITE BBB- | Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	4.55	ACUITE BBB- | Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.35	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	3.50	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	6.15	ACUITE BBB- | Stable (Reaffirmed)
	Bills Discounting	Short Term	15.50	ACUITE A3 (Reaffirmed)
	Packing Credit	Short Term	8.35	ACUITE A3 (Reaffirmed)
20 Aug 2019	Packing Credit	Short Term	8.35	ACUITE A3 (Assigned)
	Bills Discounting	Short Term	8.00	ACUITE A3 (Assigned)
	Proposed Cash Credit	Long Term	4.50	ACUITE BBB- | Stable (Assigned)
	Term Loan	Long Term	3.15	ACUITE BBB- | Stable (Assigned)
	Proposed Bills Discounting	Short Term	7.50	ACUITE A3 (Assigned)
	Cash Credit	Long Term	1.65	ACUITE BBB- | Stable (Assigned)
	Letter of Credit	Short Term	3.50	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	3.00	ACUITE BBB- | Stable (Assigned)
	Bank Guarantee	Short Term	0.35	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Overseas Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.35	ACUITE A4 | Downgraded (from ACUITE A3)
Indian Overseas Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	8.35	ACUITE A4 | Downgraded (from ACUITE A3)
Indian Overseas Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.15	ACUITE C | Downgraded (from ACUITE BBB-)
Indian Overseas Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A4 | Downgraded (from ACUITE A3)
Indian Overseas Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	15.50	ACUITE A4 | Downgraded (from ACUITE A3)
Indian Overseas Bank	Not Applicable	Working Capital Term Loan	31-12-2020	9.25	31-12-2025	9.04	ACUITE C | Assigned
Indian Overseas Bank	Not Applicable	Working Capital Term Loan	21-12-2021	9.25	30-11-2027	5.42	ACUITE C | Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.