

Press Release

Ammayapper Textiles Private Limited

August 02, 2022

Rating Upgraded



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|--------------------------------|-----------------------|
| Bank Loan Ratings | 25.61 | ACUITE BB+ Stable Upgraded | - |
| Bank Loan Ratings | 27.70 | - | ACUITE A4+ Upgraded |
| Total Outstanding Quantum (Rs. Cr) | 53.31 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE Double B Plus**) from '**ACUITE C**' (read as **ACUITE C**) and the short-term rating to '**ACUITE A4+**' (read as **ACUITE A Four Plus**) from '**ACUITE A4**' (read as **ACUITE A Four**) on the Rs.53.31 crore bank facilities of Ammayapper Textiles Private Limited (ATPL). The outlook is '**Stable**'.

Rationale for Rating

The rating upgrades reflects the clear banker feedback received wherein earlier they have inadvertently mentioned that the account is in SMA-0. However, the same is due to late realization of the cheques presented by the company on the EMI due date itself and there were no actual delays in repayment. The rating also 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. However, the rating remains constrained by ATPL's stretched liquidity, high working capital intensity in the business, vulnerable to foreign exchange rate fluctuations and intense competition.

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

Acuite 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 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.

>Moderate financial risk profile

Financial risk profile of ATPL is moderate marked by moderate 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.

>Improvement in the operating and profit ability 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.

>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 the working capital cycle

Material covenants

None.

Liquidity Position: Stretched

The liquidity position of the company is stretched as the overall fund-based limits remains utilized above 90 percent for last trailing 6 months ended May 2022. 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 non-fund-based limits remains utilized at 30-35 percent for last trailing 6 months ended May, 2022.

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.

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.

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>
- 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 |
|-------------|--------------------------------|------------|-----------------|---|
| 16 Jun 2022 | Bills Discounting | Short Term | 8.35 | ACUITE A4 (Downgraded from ACUITE A3) |
| | Letter of Credit | Short Term | 3.50 | ACUITE A4 (Downgraded from ACUITE A3) |
| | Working Capital Term Loan | Long Term | 9.04 | ACUITE C (Assigned) |
| | Working Capital Term Loan | Long Term | 5.42 | ACUITE C (Assigned) |
| | Bank Guarantee | Short Term | 0.35 | ACUITE A4 (Downgraded from ACUITE A3) |
| | Packing Credit | Short Term | 15.50 | ACUITE A4 (Downgraded from ACUITE A3) |
| | Cash Credit | Long Term | 11.15 | ACUITE C (Downgraded from ACUITE BBB- Stable) |
| 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+ Upgraded |
| Indian Overseas Bank | Not Applicable | Bills Discounting | Not Applicable | Not Applicable | Not Applicable | 8.35 | ACUITE A4+ Upgraded |
| Indian Overseas Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 11.15 | ACUITE BB+ Stable Upgraded |
| Indian Overseas Bank | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 3.50 | ACUITE A4+ Upgraded |
| Indian Overseas Bank | Not Applicable | PC/PCFC | Not Applicable | Not Applicable | Not Applicable | 15.50 | ACUITE A4+ Upgraded |
| Indian Overseas Bank | Not Applicable | Working Capital Term Loan | 31-12-2020 | 9.25 | 31-12-2025 | 9.04 | ACUITE BB+ Stable Upgraded |
| Indian Overseas Bank | Not Applicable | Working Capital Term Loan | 21-12-2021 | 9.25 | 30-11-2027 | 5.42 | ACUITE BB+ Stable Upgraded |

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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.

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