

Press Release
Amartex Industries Limited

November 22, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	0.79	-	ACUITE A3 Assigned
Bank Loan Ratings	19.21	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	20.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned 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.20.00 crore bank facilities of Amartex Industries Limited (AIL). The outlook is '**Stable**'.

Rationale for assignment

The rating has been assigned taking into account the vintage of operations, improvement in revenues earned and the moderate financial risk profile. Company has been operating for more than 2 decades with the management gaining extensive experience in readymade garment manufacturing and retail sales. Company scale of operations have improved in FY 2022 after witnessing dip in revenues in FY 2021 due to covid pandemic. Company's financial risk profile is moderate with comfortable gearing, debt protection metrics and healthy net worth. However, rating is constrained by working capital intensive nature of operations which is a result of high inventory holding period as is the nature of retail segment and moderation in profitability despite registering growth in revenues in FY 2022.

About the Company

Chandigarh based, Amartex Industries Limited was incorporated on 27 January 1988. It is involved in manufacturing of wearing apparel, except fur apparel. Directors of Amartex Industries Limited are Varun Grover, Suresh Singh, Shivam Grover, Arun Grover. Company is engaged in manufacturing and retail segment. Company operates weaving, dying and a processing unit for manufacturing retail garments. At present the company operates a chain of 17 retail stores in the name of Amartex Family Mart in Himachal Pradesh, Haryana, Punjab and Chandigarh. Company sells readymade garments under the brand names of "Grovanio – Italy" (Casual fashion), "Lil Saint", "Rajwadas" (Ethnic wear), "Meera" (Women Fashion) through its retail stores and "Amartex Uniform Fabrics" through channel sales.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of Amartex Industries Limited to arrive at the rating.

Key Rating Drivers

Strengths

Experienced Management

The management has an extensive experience of over three decades in the textile and retail industry. Day to day operations are managed by Mr. Arun Grover, Mr. Varun Grover and Mr. Shivam Grover. Management is well supported by a team of experienced professionals.

Moderate Financial Risk profile

Company's financial risk profile is moderate marked by healthy net worth and comfortable debt protection metrics. Tangible net worth as on 31st March 2022 stood at Rs. 41.10 Cr as against Rs. 36.65 Cr in FY 2021. Total debt of Rs. 12.95 Cr in FY 2022 consists of Rs. 1.66 Cr of long term debt, Rs. 10.18 Cr of working capital borrowing and Rs. 1.12 Cr of CPLTD. Consequently, gearing remains comfortable at 0.32 times in FY 2022, improvement from 0.39 times in FY 2021 due to decline in debt levels. Interest Coverage Ratio has improved and remains strong at 4.35 times in FY 2022 as against 3.14 times in FY 2021 while Debt Service Coverage Ratio moderated to 2.82 times in FY 2022 as against 2.90 times in FY 2021 due to increase in CPLTD portion. NCA/TD stood comfortable at 0.38 times in FY 2022 along with Debt-EBITDA of 0.53 times and TOL/TNW of 2.04 times. Company has no major debt funded capex plan in the near term and the capex of Rs. 1.58 Cr in FY 2024 through which company plans to upgrade manufacturing facility will be managed from internal resources hence in the coming times financial risk profile is expected to remain stable with moderate improvements.

Weaknesses

Working capital intensive operations

Company's operations are working capital intensive as evident by GCA days of 187 in FY 2022. High GCA days is a result of high inventory holding period. Inventory holding period has increased from 168 days in FY 2020 to 222 days in FY 2021 due to disruptions created by Covid pandemic, further it declined to 171 days in FY 2022 however the inventory period remains high since the company is engaged in retail business and has to hold the inventory in stores for sales. Company employs WizApp ERP software for inventory management. However, since the company is planning to open new stores in the coming times hence the inventory period is expected to remain high in the coming times. Company's debtor period is comfortable and has remained between 10-5 days in the last 3 years. Creditor period for FY 2022 stood at 49 days. Bank limit utilization for the last 12 months between September 2021 and August 2022 stood at 52.16%.

Decline in profitability

Company's profitability has moderated year on year. PAT margin has moderated from 7.29% in FY 2021 to 6.08% in FY 2022. Despite increase in proportion of manufacturing segment sales in revenue portfolio the margins have declined. The decline in margins was because of the product mix sold in the current year since the company employs an ERP system in retail stores which focuses on consumer behaviours and analyses the product that is popular among customers and the company thereon focuses on that product mix.

Rating Sensitivities

- Improvement in scale of operations.
- Profitability.

Material covenants

None.

Liquidity Position

Adequate

Company has adequate liquidity in term of Net cash accruals to its maturing debt obligations. In FY 2022 company generated net cash accruals of Rs. 4.90 Cr against maturing

debt obligation of Rs. 0.79 Cr and going forward the company is expected to generate net cash accrual of Rs. 7.54 Cr and Rs. 9.02 Cr against maturing debt obligation of Rs. 1.12 Cr in FY 2023-24 respectively. Debtor period remained low at 5 days in FY 2022 indicating better receivables which led to limit utilization of 52.16% in the last 12 months ending August 2022. Company has invested Rs.0.92 Cr in group concern Shivaks Impex which as per the management would soon be merged in Amartex Industries Limited.

Outlook: Stable

Acuité believes that the company will continue to maintain a 'Stable' outlook over near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability level and margin, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than expected working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	73.26	55.23
PAT	Rs. Cr.	4.45	4.03
PAT Margin	(%)	6.08	7.29
Total Debt/Tangible Net Worth	Times	0.32	0.39
PBDIT/Interest	Times	4.35	3.14

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>
- 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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History:

Not applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
IDBI Bank Ltd.	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	19.21	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.79	ACUITE A3 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.

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