

Press Release

Pearl Apparels Private Limited

March 22, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	40.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	40.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.40.00 Crore bank facilities of Pearl Apparels Private Limited (PAPL). The outlook is '**stable**'.

Rationale for rating

The rating assigned reflects the extensive experience of the management along with established track record of operations of more than 6 years in the same line of business. The rating also factors in the improvement in the operational performance in FY22 with a revenue of Rs 173.87 Cr against Rs 126.63 Cr in FY21. Further, it also considers the working capital efficient operations of the company with an average bank limit utilization of 17% for for last 5 months ended January 2023. However, the above mentioned strengths are partly offset by moderate financial risk profile and susceptibility of profitability to fluctuations in input prices. PAPL's ability to achieve significant improvement in its scale of operations while maintaining profitability and ability to maintain its working capital cycle in near to medium term will remain a key rating sensitivity.

About the Company

Incorporated in 2017, Pearl Apparels Private Limited is engaged in the manufacturing and export of garments. The company is based out in New Delhi and promoted by Mr. Amit Gupta and family. Pearl Apparels was a partnership firm and in FY2023 it was converted into a Private Limited company. The product line includes garments, home furnishing, kids wear, ladies wear, etc.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Pearl Apparels Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

Experienced management and established track record of operations

PAPL is engaged in manufacturing and exporting of kid wear garments. It has an established operational track record of more than 6 years. It is promoted by Mr.Amit Gupta, Mr.Mayank Gupta, Mr.Chayan Gupta, Mr.Nayan Gupta, Mr.Subhash Chand Gupta and Mr.Shivank

Gupta who have more than a decade of experience in the field of garments. The promoters are being supported by its team of experienced professionals in managing day to day operations of PAPL. The extensive experience of the promoters has enabled PAPL to establish a healthy relationship with its customers and suppliers. The PAPL is majorly into exports and is exporting to countries namely Australia, UK, Italy, Dubai, etc. Acuite believes that PAPL will continue to benefit from its experienced management and established track record of operations along with long standing relationship with customers and suppliers.

Improvement in operational performance

The company has recorded the revenue of Rs.173.87 Crores in FY22 against Rs.126.63 Crores in FY21. The 80% of the revenue is comprised from exports. The revenue of the company has increased on an account of better sales in the international market in FY22. The EBITDA Margins of the company stood at 4.97% in FY22 against 3.62% in FY21. Along with this, the PAT Margins of the company has also increased from 2.19% in FY21 to 3.65% in FY22. Further, the company has also extended the line of business by entering into home furnishing segment. Currently, company is having five factories out of which three factories are owned by the company and rest two are on lease. PAPL have a healthy order book position of Rs 85 Cr for garments segments and 1 lac dollars for home furnishing segment as on February 2023 which is to be executed in next 2-3 months. Further, the company has already achieved a turnover of around Rs.170.55 Crores till February 2022. The company is expecting to achieve turnover of Rs.191.47 Crores in FY23 along with improved margins majorly in the range of 6%-7% in succeeding years. Acuite believes that revenue of the company may increase going forward with an increase in exports and addition of a new product line.

Working capital efficient Operations

The working capital operations of the company are efficient marked by GCA days of 90 days in FY22 against 112 days in FY21. The GCA days are improved on an account of better realization of receivables which stood at 52 days in FY22 against 63 days in FY21. Additionally, the inventory days of the company has improved and stood at 27 days in FY22 against 36 days in FY21. On the other hand, the creditor days of the company stood at 63 days in FY22 against 85 days in FY21. The efficient working capital management leads to lower reliance on bank borrowings with an average utilization of 17% for 5 months ended January 2023.

Weaknesses

Susceptible to profitability to changes in input prices

The raw material procured by the company is fabric which is manufactured using cotton, polyester, the prices of which are fluctuating in nature on account of seasonality. These fabrics are being procured either from the domestic mills in India or from other import suppliers in the domestic market. Thus, the company's margins are exposed to the high volatility in prices of these fabrics.

Moderate financial risk profile

The financial risk profile of the company is moderate marked by net-worth of Rs.15.68 Crores in FY22 against Rs.12.38 Crores in FY21. The total debt of the company consists long term debt of Rs.3.94 Crores, Unsecured loans of Rs.9.50 Crores and Short term debt of Rs.13.10 Crores in FY22. The promoters of the company have infused Rs.21.38 Crores as quasi capital. Further, company has invested Rs.18.86 Crores in FY23 to execute upcoming orders of home furnishing segment of business. Currently, the company is executing order for home furnishing segment in the existing premises only. The company follows a moderately aggressive financial risk profile reflected by Debt-equity ratio of the company stood at 1.69 times in FY22 against 1.99 times in FY21. The TOL/TNW ratio stood at 3.44 times in FY22 against 4.10 times in FY21. Further, the interest coverage ratio and Debt Service coverage ratio stood comfortable at 4.64 times in FY22 respectively against 4.28 times in FY21. The leverage ratios are expected to remain moderate in FY23 as the company has increased overall debt structure to facilitate capital expenditure in upcoming years.

Acuite believes that financial risk of the company may remain moderate in the medium term with capex to be funded partially by debt and partially by Quasi Capital.

Rating Sensitivities

- Improvement in revenue and profitability going forward.
- Elongation in working capital cycle resulting in stretch of liquidity.

Material covenants

None.

Liquidity Position

Adequate

The liquidity profile of the company is adequate. The company has generated net cash accruals of Rs.7.35 Crores in FY22 against debt repayment obligation of Rs.0.23 Crores in the same period. Further, the company is expected to generate net cash accruals of Rs.8.76 Crores in FY23 and Rs.10.02 Crores in FY24 against debt repayment obligations of Rs.0.42 crores and Rs.3.68 Crores in the same period respectively. Further, the current ratio of the company stood at 1.35 times in FY22. The average bank limit utilisation of the company stood at 17% in past 5 months ending January 2023.

Outlook: Stable

Acuité believes that PAPL will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to its extensive experience of promoters, and healthy revenue visibility due to new in-house structure set up by them. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its efficient working capital operations. Conversely, the outlook may be revised to 'Negative' if the company generates lower than anticipated cash accruals, most likely due to significant debt funded capex or any significant withdrawal of quasi capital, thereby impacting its financial risk profile, particularly its liquidity.

Other Factors affecting Rating

Not applicable.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	173.87	126.63
PAT	Rs. Cr.	6.34	2.78
PAT Margin	(%)	3.65	2.19
Total Debt/Tangible Net Worth	Times	1.69	1.99
PBDIT/Interest	Times	4.64	4.28

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>
- 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. Acuite' 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
HDFC Bank Ltd	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	23.58	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	2.96	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13.46	ACUITE BBB- Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Depanshi . Analyst-Rating Operations Tel: 022-49294065 depanshi.mittal@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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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