



Press Release
INDACO JEANS PRIVATE LIMITED
July 24, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	59.00	ACUITE BB+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	59.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on Rs. 59.00 crore bank facilities of Indaco Jeans Private Limited (IJPL). The outlook is '**Stable**'

Rationale for rating assigned

The rating assigned factors in the extensive experience of the promoters in the garment manufacturing industry. The rating also factors in the healthy improvement in the operating performance of the company marked by compounded annual growth in its revenue of 28 percent over the last three years through FY23 (Prov.). The profitability of the company has also witnessed improvement in FY23 (Prov.) led by cost optimisation efforts taken by the company. The operating margins of the company stood at 8.20 percent in FY23 (Prov) as against 4.74 percent in FY22 and 5.02 percent in FY21. However, the rating is constrained by below average financial risk profile of the company marked by high debt to equity ratio of 2.47 times as on March 31, 2023 (Prov.) and high customer concentration risk.

About the Company

Incorporated in 2007, Indaco Jeans Private Limited is engaged in manufacturing of denims. The company manufactures a variety of denims for various customers like Spykar Jeans, Arvind Fashion, Reliance Gas Lifestyle India Private Limited amongst others. The manufacturing facility of the company is located at MIDC, Boisar. The company is promoted by Mr. Prasad Pabrekar and Mr. Sudesh Vaidya who collectively have over two decades of experience in the garment manufacturing industry.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of IJPL to arrive at the rating.

Key Rating Drivers

Strengths

Extensive experience of the promoters

IJPL is based out of Maharashtra and is incorporated in 2007 and is engaged in

manufacturing of denims. The company is promoted by Mr. Prasad Pabrekar and Mr. Sudesh Vaidya who collectively have over two decades of experience in the garment manufacturing

industry. The operations of the company are managed by a qualified and well experienced senior management team who are ably supported by a strong line of mid-level managers. The extensive experience of the promoters and the management has helped the company to establish long and healthy relationship with reputed customers and suppliers over the years. The key customers of the company include names such as Spykar Jeans, Arvind Fashion, Reliance Gas Lifestyle India Private Limited among others. Acuité believes that IJPL will continue to benefit from the experience of the promoter and established relations with its customers and suppliers.

Steady operating performance

IJPL manufactures denims classified into 2 categories i.e. Basic denims and designer denims. The company caters to reputed brands like Spykar Jeans, Arvind Fashion, Reliance Gas Lifestyle India Private Limited amongst others. Over the last three years the operating performance of the company has registered a healthy growth reflected by a CAGR growth of 28 percent. The operating income of the company stood at Rs. 216.53 crore for FY23 (Prov.) as against Rs. 211.84 crore for FY22 and Rs. 103.30 crore for FY21. The improvement in operating performance comes at the back of increase price realization and volumes. IJPL has limited bargaining power with respect to the prices of its products and hence cannot pass on the increased input cost completely to the customers. Over the last three years the company has increased its manufacturing capacity and also automated its plant to optimize costs which has led to improvement in the margins in FY23 (Prov.). The operating margins of the company stood at 8.20 percent in FY23 (Prov) as against 4.74 percent in FY22 and 5.02 percent in FY21. The PAT margins however saw a steady improvement at 2.80 percent in FY23 (Prov) as against 1.40 percent in FY21 and 0.18 percent in FY20.

Acuité believes that the business risk profile of the company is likely to continue to improve on the back of reputed clientele and healthy demand expected over the near to medium term.

Efficient working capital operation

The working capital operations of the company are efficient marked by GCA days of 94 days in FY23 (Prov) as against 84 days in FY22 and 129 days in FY21. The company procures raw materials basis the orders at hand and the manufacturing process takes approximately 30-40 days. The inventory holding period of the company stood at 46 days in FY23 (Prov.) as against 2 days in FY22 and 13 days in FY21. The debtor collection of the company has improved over the last three years and stood at 41 days in FY23 (Prov) as against 68 days in FY22 and 98 days in FY21. The creditor days of the company stood at 28 days in FY23 (Prov) as against 25 days in FY22 and 61 days in FY20. Further, the reliance of the company on bank limits is moderate reflected by average utilization of 80 % for 9 months ended May 2023.

Acuité believes that the ability of the company to manage its working capital operations will remain a key rating sensitivity over the medium term.

Weaknesses

Average financial risk profile

The financial risk profile of the company is average marked by moderate network, high gearing and healthy debt protection metrics. The tangible network of the company stood at Rs. 26.20 crore as on March 31, 2023 (Prov.) as against Rs. 20.14 crore as on March 31, 2022 and Rs. 12.67 crore as on March 31, 2021. Increase in tangible network is on account of steady accretion of profits to reserves. Further, the promoters have also infused equity of ~4.19 crore over the last three years. The total debt of the company stood at Rs. 64.64 crore as on March 31, 2023 (Prov) as against Rs. 54.05 crore as on March 31, 2022 and Rs. 36.22 crore as on March 31, 2021. The management follows an aggressive financial policy marked by peak gearing of 2.86 times as on March 31, 2021. The gearing (Debt/Equity) of the company improved however remains high at 2.47 times as on March 31, 2023 (Prov.) as against 2.68 times as on March 31, 2022. Improvement in gearing comes at the back of improvement in network of the company. The debt protection metrics of the company remained healthy reflected by interest coverage ratio at 4.06 times for FY23 (Prov) as against 2.45 times for FY22 and 1.93 times for FY21. The Debt service coverage ratio (DSCR) stood at 1.23 times for FY23 (Prov) as against 2.23 times for FY22 and 1.93 times for FY21.

Acuité believes that the financial risk profile of the group is likely to improve over the near to

medium term on account of likely improvement in scale of operations and absence of large debt-funded capital expenditure.

Highly fragmented and competitive industry along with high customer concentration risk

The denim manufacturing industry in India is highly fragmented and competitive marked by the presence of a large number of organised and unorganised players. The company is exposed to intense competition from both domestic players as well as the established players in the overseas market leading to intense margin pressures. Further, the company faces high customer concentration risk with ~80 percent of the revenue comes from only two customers. However, such risk is partially mitigated by long standing relationship with these customers.

Rating Sensitivities

- Improvement in the scale of operation while maintaining its profitability margin at the current level.
- Any deterioration or stretch in the working capital cycle on account of further elongation in debtor collection period leading to stretched liquidity.

Material covenants

None

Liquidity Position

Adequate

The liquidity of the company is adequate marked by sufficient net cash accruals to meet its debt service obligations. The net cash accruals of the company stood at Rs. 12.06 crore in FY23 (Prov) as against debt repayment obligation of Rs. 8.98 crore during the same tenure. The net cash accruals of the company are likely to remain adequate to meet its debt service obligation in the near to medium term. The company's reliance on working capital limits remained moderate marked by an average utilization of 80 percent for 9 months ended May 2023. The company maintains a cash balance of Rs.0.03 crore as on March 31, 2023 (Prov). The current ratio of the company has deteriorated and stood at 0.97 times as on March 31, 2023 (Prov) as against 1.04 times as on March 31, 2022.

Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligation.

Outlook: Stable

Acuité believes that the company will continue to maintain a 'Stable' outlook over near to medium term owing to its established track record and experienced management along with efficient working capital management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability and improvement in the financial risk profile. 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 debt and working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	216.53	211.84
PAT	Rs. Cr.	6.06	2.97
PAT Margin	(%)	2.80	1.40
Total Debt/Tangible Net Worth	Times	2.47	2.68
PBDIT/Interest	Times	4.06	2.45

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. 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
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	23.00	ACUITE BB+ Stable Assigned
Bank of Baroda	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	9.30	ACUITE BB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	6.08	ACUITE BB+ Stable Assigned
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.51	ACUITE BB+ Stable Assigned
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.96	ACUITE BB+ Stable Assigned
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.13	ACUITE BB+ Stable Assigned
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.76	ACUITE BB+ Stable Assigned
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.60	ACUITE BB+ Stable Assigned
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.14	ACUITE BB+ Stable Assigned
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	8.52	ACUITE BB+ Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Deepti Bhandarkar Lead Analyst-Rating Operations Tel: 022-49294065 deepti.bhandarkar@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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