

Press Release

Nuvocraft Apparels India Private Limited

May 28, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 7.84 Cr.
Long Term Rating	SMERA BB+/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned a long term rating of **'SMERA BB+' (read as SMERA double B plus)** to the Rs. 7.84 crore bank facilities of Nuvocraft Apparels India Private Limited (NAIPL). The outlook is **'Stable'**.

Incorporated in 2006, Nuvocraft Apparels India Private Limited (NAIPL) a Bangalore, Karnataka based company is engaged in manufacture of shirts, trousers (both formal and casual), uniforms, fire resistance garments as well as suits. It also does job work for Aditya Birla Fashion Retail Ltd and others. NAIPL was promoted by Mr. Stephen Verghese and Mr. Govindaraju Yedla. Promoters have an experience of more than two decades in the Textiles and Apparels field. Company has two manufacturing unit located in Mysore Road (Karnataka) and Hindupur (Andhra Pradesh).

Key Rating Drivers

Strengths

Experienced management and long track record of operations

Incorporated in 2006, NAIPL has a long operational track record of more than a decade in the apparel industry. The senior management Mr Stephen Verghese has done his B.Tech in Textile Technology, and done MBA from Faculty of Management Studies, New Delhi. He spent nearly three decades in Madura Coats / Madura Garments Limited overseeing the manufacturing, sourcing, and logistics of the apparel segment. Mr Govindaraju Yedla, the other Director has done his post-graduation in garment manufacturing technology from NIFT. He has spent over a decade in Madhura Garments specialised in formal dresses and suit manufacturing division.

The experienced management across the verticals helped NAIPL in forging healthy relationships with the suppliers and the clientele. NAIPL derives about 30 per cent of the revenue from job works, which is high margin oriented business; 70 per cent of the revenues are from manufacture and sale of readymade garments (RMG) – of which, about 90 per cent is from exports, and balance from the domestic market. NAIPL's key clients for job work operations are Aditya Birla Fashion Retail Limited, Aquarelle India Pvt Ltd among others and in overseas market, Gulf Uniform Designer Co. and Arthur R Johnsons Co Inc. among others. To maintain the quality, it buys the fabric from reputed players like Reliance Industries Ltd and others; about 90 per cent of the fabric is sourced from domestic players, and rest imported from China. SMERA believes that NAIPL will continue to benefit from its experienced management and established relation with its customers and suppliers.

Moderate financial risk profile

The financial risk profile is moderate marked by healthy gearing (debt-to-equity ratio) of 0.79 times (provisional) as on 31 March, 2018 compared to 0.96 times in FY 2017 (refers to financial year, April 1st to March 31st); though underpinned by modest net worth of Rs.8.06 crores (provisional) as on 31 March, 2018. Debt protection metrics are comfortable: interest coverage ratio (ICR) at 4.47 times and DSCR at 1.30 times in FY 2018. In FY 2018, the net cash accruals to total debt (NCA/TD) stood at 0.34 times.

NAIPL's working capital operations are healthy as evident from gross current assets (GCA) days of 108 as on March 31, 2018 (provisional) as against 77 days as on March 31, 2017. The company's inventory days are around 20 days and debtor days are around 40 over the past three years through FY2018. SMERA believes that NAIPL's financial risk profile continues to be moderate supported by healthy working capital cycle, and absence of capex plans over the medium term.

Weaknesses

Uneven trend in revenues

NAIPL has registered uneven trend in revenues under the period of study on account of fluctuation in demand from overseas market. The revenues of the company have declined to Rs. 30.62 crore (Provisional) in FY2018, against Rs.34.10 crore in FY2017; decline in turnover is partly attributed to the reduction in duty drawback rates during October 2017, and eventually becoming non-competitive in global market and decline in export revenues; this is evident from its manufacturing revenues declined to 68.6 per cent of total revenues in FY2018, against 80.1 per cent in FY2017. In year FY2015, it has reported highest revenues of Rs.51.76 crores. Though it has an order book of about Rs.19.65 crores (~ Rs.13.5 crores is from job works) as of May 16, 2018, SMERA believes that revenue profile of NAIPL is susceptible to the regulatory changes and competitive environment in the overseas market.

Susceptible of profitability to changes in input prices and foreign exchange rates

The profitability is susceptible to changes in the prices of raw materials i.e. fabrics and other consumables. The prices of cotton are highly dependent on agro-climatic conditions and availability. The raw material cost constitutes ~44 percent of the total sales for FY2017 as against ~48 percent in the previous year. NAIPL operates in two models – manufacturing and job work basis; the operating margins varies basis the proportion of the revenues in each year. In FY2015, its operating margins are low at 8.5 per cent, whereas it has increased to about 17.1 per cent in FY2017 wherein it derived major revenues from job work contract. However, as the base component in manufacturing revenues are cotton, and any under-absorption in overall fixed costs will have a bearing on the profitability of the company. Further, exchange fluctuation also will have a bearing on the profitability.

Outlook: Stable

SMERA believes that the outlook on the rated facilities of NAIPL will remain stable over the medium term on account of its experienced management and long standing presence in textile business. The outlook may be revised to 'Positive' in case of better-than-expected improvement in revenues and profitability. Conversely, the outlook maybe revised to 'Negative' in case of any stretch in the liquidity owing to increase in receivable position or any significant debt-funded capital expenditure programme.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	34.10	29.80	51.76
EBITDA	Rs. Cr.	5.83	4.22	4.41
PAT	Rs. Cr.	1.76	0.93	1.77
EBITDA Margin	(%)	17.10	14.16	8.51
PAT Margin	(%)	5.16	3.12	3.42
ROCE	(%)	31.16	20.56	56
Total Debt/Tangible Net Worth	Times	0.96	1.09	1.56
PBDIT/Interest	Times	7.07	5.30	12.23
Total Debt/PBDIT	Times	1.18	1.38	1.50
Gross Current Assets (Days)	Days	77	47	42

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

Not Applicable

Any other information

Not Applicable

Applicable CriteriaManufacturing Entities- <https://www.smera.in/criteria-manufacturing.htm>Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>Default Recognition: <https://www.smera.in/criteria-default.htm>**Note on complexity levels of the rated instrument**<https://www.smera.in/criteria-complexity-levels.htm>**Rating History (Up to last three years)**

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/ Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.84	SMERA BB+/Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA BB+/Stable

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ABOUT SMERA

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