

Press Release

Nuvocraft Apparels India Private Limited

June 28, 2019

Rating Downgraded and Assigned



Total Bank Facilities Rated*	Rs.12.84 crore (Enhanced from Rs.7.84 crore)
Long Term Rating	ACUITE BB / Stable (Downgraded from BB+)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and assigned the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.12.84 crore bank facilities of **Nuvocraft Apparels India Private Limited (NAPL)**. The outlook is '**Stable**'.

The rating downgrade reflects less than expected performance, significant decline in its profitability margins, stretch in its working capital operations and liquidity. The revenues are stagnant at about Rs.30.00 crore over the past four years through FY2019. With increasing competition in the ready-made garments (RMG) segment in overseas space, NAPL's gross current asset (GCA) days have gone up to about 200 in FY2019 (provisional) against 135 days in FY2018 and about 77 days in FY2017. Also, the competition led to piling up of stock and drop in the profitability margins. However, the ratings factor in longstanding presence of the promoters in the industry, comfortable financial risk profile though constrained by working capital intensive operations and modest revenues in the RMG sector.

Incorporated in 2006, Nuvocraft Apparels India Private Limited (NAPL) is engaged in manufacturing and export of readymade garments. The Bangalore-based company was promoted by Mr. Stephen Verghese and Mr. Govindaraju Yedla. The promoters have an experience of more than a decade in the Textiles and Apparels industry.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of NAPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

NAPL has a long operational track record of more than a decade in the apparel industry. Mr. Stephen Verghese, Managing Director, holds B.Tech in Textile Technology, and 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 post-graduation in garment manufacturing technology from NIFT. He has spent over a decade in Madura Garments specialised in formal dresses and suit manufacturing division. The experienced management across the verticals helped NAPL in forging healthy relationships with the suppliers and the clientele.

NAPL 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. NAPL's key client for job work operations are Madura Garments 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 such as Reliance Industries Ltd and others. About 90 per cent of the fabric is sourced from domestic players, and rest imported from China. Acuité believes that NAPL will continue to benefit from its experienced management and established relations with its customers and suppliers.

- **Comfortable financial risk profile**

Financial risk profile of the company is comfortable marked by comfortable gearing, moderate total outside liabilities to total net worth (TOL/TNW) as well as comfortable debt protection metrics. Gearing (debt-to-equity) is comfortable at 1.30 times as on 31 March, 2019 (provisional) as against 0.97 times as on 31 March, 2018; deterioration is owing to increase in GCA and corresponding debt levels. TOL/TNW is moderate at 2.21 times as on 31 March, 2019 (provisional) as against 1.97 times as on 31 March, 2018. Net worth is modest at Rs.8.11 crore as on 31 March, 2019 (provisional) as against Rs.7.42 crore as on 31 March, 2018. Of the total debt of Rs.10.54 crore as on 31 March, 2019 (provisional), long term debt constitutes Rs.4.19 crore and short term debt of Rs.6.22 crore and unsecured loans by promoters of Rs.0.13 crore.

The company has undergone capital expenditure in FY2018; the capital expenditure incurred is about Rs.1.99 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 3.03 and 0.22 times in FY2019 (provisional), deteriorated from 3.71 times and 0.28 times respectively in FY2018. The company reported cash accruals of Rs.2.20 crore for FY2019 (provisional). Further, repayment obligations are expected to be in the range of Rs.1.00-2.30 crore against annual cash accruals of about Rs.2.0 – 2.5 crore. Improvement of the revenues and sustenance of the profitability margins are key rating sensitivity factors to maintain the financial risk profile over the medium term.

Weaknesses

- **Working capital intensive management**

The firm's operations are moderately working capital intensive with Gross Current Assets (GCA) of about 191 days in FY2019 against 135 days in FY2018. The inventory holding period stood at 64 days in FY2019 against 86 days in FY2018 against less than ten days in the past. The company offers credit period of around 30-50 days to its customers; the same stood at 124 days as on FY2019 (provisional) against 34 days in FY2018. Piling up of the stock was due to lack of orders from particular export client and low shipment due to insufficient container capacity for shipping. Working capital intensive operations lead to high utilisation of its bank lines at about 90 per cent over last six months through March 2019. NAPL's efforts to add new clientele, liquidating the stocks and improving the working capital management are key rating sensitivity factors over the medium term.

- **Uneven revenue trends and profitability**

NAPL has registered uneven trend in revenues under the period of study on account of fluctuations in demand from overseas market and irregularity of orders from clients. The revenues of the company have been reported at Rs.31.84 crore in FY2019 (Provisional), against Rs.29.96 crore in FY2018 and decline from Rs.34.1 crore in FY2017. Volatile revenues are owing to competition, loss of clientele, irregular orders among others; this resulted in volatility and decline in the profitability levels. Its operating margins have dropped to 11.6 per cent in FY2019 (provisional) against 17.1 per cent in FY2017. NAPL has an unexecuted order book of about Rs.14.00 crore as of June 20, 2019 for deliverables in the next six months. Improving its revenues and sustaining the profitability margins are key rating sensitivity factors over the medium term.

Liquidity Position:

Liquidity profile of NAPL is moderate reflected by tightly matching accruals to repayment obligations and high bank line utilisation. It has reported cash accruals of Rs.2.20 crore in FY2019 (provisional). It is expected to generate cash accruals in the range of Rs.2.25-2.50 crore over the medium term against which its repayment obligations are about Rs.2.20-1.30 crore. However, working capital intensive operations are expected to weigh on the liquidity. Its working capital limits are highly utilised about 90 per cent for the last six months through March 2019. Acuite believes that moderate accruals to debt obligations and high GCA is expected to constrain the liquidity at moderate level over the medium term.

Outlook: Stable

Acuite believes that the outlook on the rated facilities of NAPL will remain 'Stable' over the medium term on account of its experienced management and 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 may be revised to 'Negative' in case of any stretch in the liquidity owing to any further stretch in its working capital management.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	29.96	34.10	29.80
EBITDA	Rs. Cr.	3.47	5.83	4.22
PAT	Rs. Cr.	0.14	1.76	0.93
EBITDA Margin	(%)	11.57	17.10	14.16
PAT Margin	(%)	0.46	5.16	3.12
ROCE	(%)	10.50	31.16	20.56
Total Debt/Tangible Net Worth	Times	0.97	0.96	1.09
PBDIT/Interest	Times	3.71	7.07	5.30
Total Debt/PBDIT	Times	2.12	1.18	1.38
Gross Current Assets (Days)	Days	135	77	47

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
28-May-2018	Term Loan	Long Term	3.84	ACUITE BB+/Stable (Assigned)
	Proposed Cash Credit	Long Term	4.00	ACUITE BB+/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB/Stable (Downgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.84	ACUITE BB/Stable (Downgraded)
Packing Credit Facility	Not Applicable	Not Applicable	Not Applicable	5.00^	ACUITE A4+ (Assigned)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB/Stable (Assigned)

^ CC sublimit of Rs.3 crore/LC sublimit of Rs.3 crore/BG sublimit of Rs.3 crore

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>Naveen Papisetty Senior Analyst - Rating Operations Tel: 040-40055452 naveen.papisetty@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.