

**Press Release**  
**Nuvocraft Apparels India Private Limited**

June 23, 2020



**Rating Downgraded**

<b>Total Bank Facilities Rated*</b>	Rs. 12.84 Cr
<b>Long Term Rating</b>	ACUITE D (Downgraded from ACUITE BB-/ Stable)
<b>Short Term Rating</b>	ACUITE D (Downgraded from ACUITE A4)

\* Refer Annexure for details

**Rating Rationale**

Acuité has downgraded the long term rating to '**ACUITE D**' (**read as ACUITE D**) from '**ACUITE BB-**' (**read as ACUITE double B minus**) and short term rating to '**ACUITE D**' (**read as ACUITE D**) from '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 12.84 Cr bank facilities of Nuvocraft Apparels India Private Limited (NAIPL).

**Rationale for rating downgrade**

The rating downgrade reflects instances of delay in servicing of interest on term loans by NAIPL for the months of March, April and May 2021 by 16 days, 16 days and 3 days respectively by the entity as confirmed by the bankers. The rating downgrade also reflects the overdrawn Packaging Credit facility for over 90 days as on June 23, 2021.

**About the company**

Incorporated in 2006, NAIPL is a Bangalore, Karnataka based company is engaged in manufacturing of readymade garments. It is promoted by Mr. Stephen Verghese and Mr. Govindaraju Yedla. Promoters have an experience of more than two decades in the Textiles and Apparels industry.

**Analytical Approach**

For arriving at the rating, Acuité has taken the standalone view on the business and financial risk profiles of Nuvocraft Apparels India Private Limited.

**Key Rating Drivers**

**Strengths**

• **Experienced management and established 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 Acuite believes that NAIPL will continue to benefit from its experienced management and established relation with its customers and suppliers.

**Weaknesses**

• **Default in the banking limits**

The company has defaulted in servicing its interest service obligations on term loans. There were instances of delay in the payments for March 2021, April 2021 and May 2021. Furthermore, packing credit facility has been overdrawn for more than 90 days as on 23<sup>rd</sup> June 2021.

- **Working capital intensive management**

The company's operations are intensive with high Gross Current Assets (GCA) days of 385 days in FY2021 (Prov.) against 284 days in FY2020. The inventory holding period stood at 192 days in FY2021 (Prov.) against 99 days in FY2020. There was piling up of stock due to cancellation of orders at the last moment and lockdown during end of FY2021. The company offers credit period of around 30-50 days to its customers; the same stood at 170 days as on FY2020 (Prov.) against 143 days in FY2020. The company procures raw materials locally and imports from China and gets a credit period of 90-100 days; same stood at 99 days in FY2021 (Prov.) against 57 days in FY2020. In FY2021, Working capital intensive operations lead to high utilization of its bank lines at about 93.92 per cent over last six months through March 2021.

#### **Rating Sensitivity**

- Deterioration in profitability margins.
- Significant decline in scale of operations
- Substantial deterioration in working capital operations

#### **Material Covenants**

None

#### **Liquidity position: Weak**

Liquidity profile of NAIPL is weak reflected by high bank limit utilization. The company has generated cash accruals of Rs.0.33 crore in FY2021 against which its repayment obligations are about Rs.1.14 crore. However, there has been a track record of promoters infusing funds in the form of unsecured loans in the past. Insufficient funds are leading to high utilization of working capital limits of about 93.92 per cent for the last six months through March 2021. Current ratio stood improved at 1.93 times in FY2021 (Prov.).

#### **Outlook: Not Applicable**

#### **About the Rated Entity - Key Financials**

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	18.60	25.72
PAT	Rs. Cr.	(0.67)	0.02
PAT Margin	(%)	(3.58)	0.06
Total Debt/Tangible Net Worth	Times	1.78	1.63
PBDIT/Interest	Times	1.24	1.96

#### **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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

#### **Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
7-Sep-20	Cash Credit	Long term	3.00	ACUITE BB- (Downgraded from ACUITE BB) Issuer not co-operating*
	Term Loan- I	Long term	3.84	ACUITE BB- (Downgraded from ACUITE BB) Issuer not co-operating*
	Packing Credit	Long term	5.00	ACUITE A4 (Downgraded from ACUITE A4+) Issuer not co-operating*
	Proposed Facility	Long term	1.00	ACUITE BB- (Downgraded from ACUITE BB) Issuer not co-operating*
28-June-19	Cash Credit	Long term	3.00	ACUITE BB/Stable (Downgraded)
	Term Loan- I	Long term	3.84	ACUITE BB/Stable (Downgraded)
	Packing Credit	Short Term	5.00	ACUITE A4+ (Assigned)
	Proposed Facility	Short Term	1.00	ACUITE BB/Stable (Assigned)
28-May-2018	Term Loan- I	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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Available	Not Applicable	3.00	ACUITE D (Downgraded)
Term Loan- I	Not Available	Not Available	Not Available	0.43	ACUITE D (Downgraded)
Term Loan- II	Not Available	Not Available	Not Available	0.70	ACUITE D (Downgraded)
Term Loan- III	Not Available	Not Available	Not Available	1.48	ACUITE D (Downgraded)
Term Loan – IV	Not Available	Not Available	Not Available	0.37	(ACUITE D (Downgraded)
Term Loan - V	Not Available	Not Available	Not Available	1.18	ACUITE D (Downgraded)
Working Capital Term Loan	Not Available	Not Available	Not Available	1.43	ACUITE D (Downgraded)
Working Capital Term Loan	Not Available	Not Available	Not Available	0.84	ACUITE D (Downgraded)
Packing Credit Facility	Not Available	Not Available	Not Available	2.00	ACUITE D (Downgraded)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	1.41	ACUITE D (Downgraded)

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### About Acuité Ratings & Research:

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