

Press Release

ASM Industries (India) Private Limited

November 05, 2020



Rating Assigned, Downgraded & Withdrawn

Total Bank Facilities Rated*	Rs.76.00 Cr. (Enhanced from Rs.65.26 Cr.)
Long Term Rating	ACUITE BB- / Outlook: Stable (Downgraded from ACUITE BB / Stable)
Short Term Rating	ACUITE A4+ (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE BB-**' (read as ACUITE double B minus) from '**ACUITE BB**' (read as ACUITE double B) on the Rs.70.00 crore bank facilities, assigned the long term rating of '**ACUITE BB-**' (read as ACUITE double B minus) on the Rs.6.00 crore bank facilities and has withdrawn the short term rating of '**ACUITE A4+**' (read as ACUITE A four plus) on the Rs.0.60 crore bank facilities of ASM Industries (India) Private Limited (AIPL). The outlook is 'Stable'.

Rationale for Revision

The revision in the rating is driven by the deterioration in the business risk profile in FY2020 (Provisional) and the expectation of further deterioration in FY2021 mainly driven by significant moderation in revenues. The revenues of the company deteriorated to Rs.145.63 crore in FY2020 (Provisional) from Rs.165.16 crore in FY2019. Further, in FY2021, the company's operations are significantly impacted due to Covid-19 pandemic. These events have impacted the liquidity profile of the company.

About the Company

AIPL was originally established as a partnership firm in 1981 by Mr. Madhusudan Kejriwal and other partners as Anand Silk Mills, in 2010 the constitution was changed to a private limited company and the name was changed to AIPL. The company is engaged in the manufacturing of fabric (shirting & suiting) and readymade garments. The company has 4 manufacturing facilities located in Umbergaon, Gujarat.

Analytical Approach

Acuité has considered the standalone view of the financial and business risk profile AIPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced promoters and established track record of operations

The promoters have been in the manufacturing and sale of fabric and readymade garments in the domestic and international markets for about 4 decades and have developed long standing relationships with several reputed and established textile companies. The extensive experience of the directors has helped the company to maintain a healthy relationship with its customers and suppliers.

Acuité believes that the company will continue to benefit from promoter's experience in the industry and its established market presence over the medium term.

Weaknesses

• Average financial risk profile

AIPL has average financial risk profile marked by modest net worth, moderate debt protection metrics and high gearing. The company has a modest net worth of Rs.22.28 crore as on March 31, 2020 (Provisional) as against Rs.22.15 crore as on March 31, 2019. The company follows a moderately aggressive financial policy as reflected by high gearing (Debt to Equity) of 3.57 times as on March 31, 2020 (Provisional) as against 3.70 times as on March 31, 2019. The total debt of AIPL stands at Rs.79.65 crore as on March 31, 2020 (Provisional)

comprising of Rs.58.14 crore of working capital facilities, Rs.10.65 crore of unsecured loans and Rs.10.86 crore of long term loans. The TOL/TNW (Total Outside Liabilities to Total Net worth) has improved to 4.77 times as on March 31, 2020 (Provisional) as against 5.11 times as on March 31, 2019.

The ICR (Interest Coverage Ratio Ratio) too has deteriorated to 1.35 times in FY2020 (Provisional) as against 1.39 times in FY2019. The DSCR (Debt Service Coverage Ratio) stands at 1.17 times as on March 31, 2020 (Provisional) as against 1.16 times as on March 31, 2019. The NCA/TD (Net Cash Accrual to Total Debt) has remained stagnant at paltry 0.05 times both as on March 31, 2020 (Provisional) and as on March 31, 2019.

Acuité believes that the financial risk profile is expected to remain above average in near to medium term due to the impact of COVID-19 and absence of significant improvement visible in sight in the near term.

- **Working capital intensive nature of operation**

AIPL's operations are working capital intensive in nature marked by working capital limit utilization of ~85 percent for 7 month period ended September, 2020 and as reflected in high GCA (Gross Current Assets), which stood at 269 days as on March 31, 2020 (Provisional) as against 243 days as on March 31, 2019. The high GCA is primarily due to high Inventory and Debtors. While Debtors have improved to 63 days as on March 31, 2020 (Provisional) as against 86 days as on March 31, 2019. The Inventory holding has increased to 208 days as on March 31, 2020 (Provisional) as against 151 days as on March 31, 2019. The increase in inventory is partially due to lockdown during the end of FY2020. The creditors stood stable at 88 days as on March 31, 2020 (Provisional) as against 83 days as on March 31, 2019.

Acuité believes the working capital management to remain intensive over the near to medium term period on account of high inventory holding historically by the company.

- **Deterioration in revenues, profitability indicators and the impact of Covid-19**

The revenues of AIPL have deteriorated by 14 percent in the FY2020 (Provisional) vis-a-vis FY2019. The operating income in FY2020 (Provisional) stood at Rs.145.63 crore as against Rs.165.16 crore for the FY2019. The deterioration is on account of change in customer profile undertaken by the company and the impact of the application of GST on exports.

Further, the company has been adversely impacted by Covid-19 in the on-going FY2021 since no operations were being conducted due to nationwide lockdown in the April 2020 – June 2020 period. This is also reflected in the YTD revenues earned till September 2020 of ~Rs.14.50 crore.

Acuité believes that the revenues are further expected to deteriorate in the near term due to the impact of COVID-19 on the company, improvement in revenues and operations is expected from FY2022.

Liquidity position: Stretched

AIPL has stretched liquidity position marked by intensive working capital operations leading to higher reliance on its working capital limits. The company generated cash accruals of Rs.3.72 crore against its maturing debt obligations of Rs.1.55 crore in FY2020 (Provisional). The liquidity is likely to remain stretched in the near term as the cash accruals of the company is expected to decline in FY2021 due to the impact of Covid-19 on revenues, the maturing debt obligations are expected to increase in FY2021 vis-à-vis creating a stretched liquidity position. The improvement in liquidity position is expected to improve from FY2022. AIPL maintains cash and bank balances of Rs.0.21 crore as on March 31, 2020 (Provisional). The current ratio stands at 1.26 times as on March 31, 2020 (Provisional).

Rating Sensitivities

- Improvement in revenues while maintaining profitability margins.
- Deterioration in the working capital cycle leading to stress on the liquidity position.

Material Covenants

None

Outlook: Stable

Acuité believes that AIPL will maintain a 'Stable' outlook in the near to medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues, profitability margins and net cash accruals while maintaining/improving its debt protection metrics and financial risk profile. The outlook may be revised to 'Negative' in case the company registers substantial decline in revenues or profitability margins or if the financial risk profile deteriorates due to higher than expected working capital requirements resulting in deterioration of the capital structure.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	145.63	165.16
PAT	Rs. Cr.	0.13	0.24
PAT Margin	(%)	0.09	0.14
Total Debt/Tangible Net Worth	Times	3.57	3.70
PBDIT/Interest	Times	1.35	1.39

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
02-Sep-2020	Cash Credit	Long Term	50.00	ACUITE BB (Indicative)
	Term Loan	Long Term	7.91	ACUITE BB (Indicative)
	Bill Discounting	Short Term	0.60	ACUITE A4+ (Indicative)
	Proposed Long Term Loan	Long Term	6.75	ACUITE BB (Indicative)
07-Jun-2019	Cash Credit	Long Term	50.00	ACUITE BB (Indicative)
	Term Loan	Long Term	7.91	ACUITE BB (Indicative)
	Bill Discounting	Short Term	0.60	ACUITE A4+ (Indicative)
	Proposed Long Term Loan	Long Term	6.75	ACUITE BB (Indicative)
02-Apr-2018	Cash Credit	Long Term	50.00	ACUITE BB / Stable (Upgraded from ACUITE BB- / Stable)
	Term Loan	Long Term	7.91	ACUITE BB / Stable (Upgraded from ACUITE BB- / Stable)
	Bill Discounting	Short Term	0.60	ACUITE A4+ (Reaffirmed)
	Proposed Long Term Loan	Long Term	6.75	ACUITE BB / Stable (Upgraded from ACUITE BB- / Stable)

*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	60.00 (Enhanced from 50.00)	ACUITE BB- / Stable (Downgraded from ACUITE BB / Stable)
Term Loan	September, 2017	12.00%	September, 2024	3.24	ACUITE BB- / Stable (Downgraded from ACUITE BB / Stable)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	0.60	ACUITE A4+ (Withdrawn)
CECL (Covid Emergency Credit Line)	April, 2020	8.00%	May, 2020	6.00	ACUITE BB- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.76 (Enhanced from 6.75)	ACUITE BB- / Stable (Downgraded from ACUITE BB / Stable)

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About Acuité Ratings & Research:

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