Rating Rationale

19 March 2020

A.I. Enterprises Pvt. Ltd.

Brickwork Ratings assigns ratings for the Bank Loan Facilities of Rs. 77.34 Crores of A.I. Enterprises Pvt. Ltd. ('AIEPL' or the 'Company')

Particulars:

Facility**	Amount (Rs Cr)	Tenure	Rating*
Fund Based		Long Term	**BWR B+/Stable Assigned**
Cash Credit	15.00		
ABL - Overdraft	0.83		
Term Loan	6.01		
Fund Based		Short Term	**BWR A4 Assigned**
PC/PCFC	35.00		
FBP/FBD	18.00		
Non-fund Based			
Bank Guarantee	2.50		
Total	**77.34^**	**Rupees Seventy Seven Crores and Thirty Four Lakhs Only**	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings;^Apart from the above mentioned facilities the company has also availed loans against securities from Deutshe Bank AG and PNB Housing Finance aggregating Rs. 25.52 Crs which have not been rated by BWR at the request of the company;** Details of Bank facilities provided in Annexure-I

Rating Action/Outlook

The ratings reflect the Company's established presence in the garments export industry, experienced management and moderate scale of operations. The ratings are constrained by the declining trend in revenue and profitability, insufficient operating profits and cash accruals to service their finance obligations, weak financial risk profile marked by continuous losses, high gearing and poor liquidity, susceptibility to risks inherent in the textile export industry such as intense competition, working capital intensive nature of operations and exposure to forex fluctuation.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that **A.I. Enterprises Pvt. Ltd.'s** business risk profile will be maintained over the medium term. The outlook may be revised to Positive if the Company records significantly better-than-expected revenue, profitability and improved working capital management, resulting in a better liquidity and financial risk profile. The outlook may be revised to Negative if the Company reports significantly lower than expected performance, resulting in lower than estimated debt coverage indicators and a weaker liquidity position. Further, any deterioration in capital structure and debt coverage indicators and/or a sharp reversal in industry operating conditions may exert a downward pressure on the ratings.

Key Rating Drivers

Credit Strengths:

- **Established track record -** AIEPL was incorporated in 2004 and has a vintage of over 15 years in the industry. The company's main line of business is manufacturing and exporting garments to countries like the USA, European and Middle eastern countries. The company has an established operational track record with its clientele, most of which have been dealing with the company for over a decade, which will help grow the company's business over the medium term. Apart from this, the company has a dealership with Maruti Suzuki (India) Pvt Ltd for their cars and have established a showroom and a service shop at ECR, Chennai.
- **Experience of the promoters -** AIEPL was incorporated as a private limited company in April, 2004, however, the company was initially established as a proprietorship firm in 1986 by Mr. Abdul Azeez, the Managing Director, who has an experience of over 3 decades in the textile industry. Mr. Haji Iqbal, Mrs. Sameen Azeez, Mr. Abdul Majeed and Mr. KV Ramachandran are the other directors.

Credit Challenges :

- **Weak financial risk profile -** The Company's scale of operations is moderate. Revenue and profitability show a declining trend as reflected by a decline in the total revenue from Rs. 320.84 Crs in FY17 to Rs. 309.73 Crs in FY18 and Rs. 280.93 Crs in FY19 and a continuous increase in losses from Rs. 3.74 Crs in FY17 to Rs. 5.58 Crs in FY18 and Rs. 7.91 Crs in FY19. The company has reported revenue of ~ Rs. 139 Crs for 9MFY20, on a provisional basis. EBIDTA has been insufficient to meet the interest costs for the last 3 years. The company has been increasing their borrowings by way of additional unsecured loans from the promoters in order to service their finance obligations. This has resulted in a high gearing of 6.63 times as on March 31st, 2019 which increased from 4.41 times as on March 31st, 2018. TNW declined to Rs. 29.57 Crs as on March 31, 2019 (PY: Rs. 37.46 Crs). The company has weak debt protection metrics with ISCR and DSCR below unity in FY19.
- **Exposed to forex rate fluctuations** - With a primarily export-driven revenue profile, AIEPL's revenues are susceptible to forex rate fluctuations, though mitigated to some extent by partial hedging of its receivables. Exports contributed to ~94% of the total revenue earned by sale of garments.
- **Working capital intensive nature of operations -** Due to the nature of the industry, AIEPL's working capital requirements have been high owing to high level of debtors and inventory days. Elevated working capital intensity in the recent past resulted in high working capital utilisation as reflected by ~95% utilization of their working capital limits.

- **Pricing power limited by intense competition in industry** - AIEPL faces competition, not only from other textile exporters from India, but also from other low-cost garment exporting countries like Vietnam and Bangladesh. This limits its ability to improve its prices and margins.
- **Impact of COVID 19:** Coronavirus outbreak in China, US and European countries has impacted the garment trade due to the dampened demand for garments. This has caused many exporters to over produce and cause an increase in supply in the domestic market further leading to a fall in prices of the product. Garment prices have fallen by ~3-4% since the outbreak of the virus and prices are expected to continue to remain volatile over the short term. Since the company's majority exports are to US and European countries, the company's performance may be impacted by the same.

Analytical Approach And Applicable Rating Criteria

BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). The Company does not have any subsidiaries.

Rating Sensitivities

Ability of the company to increase its scale of operations, improve profitability, strengthen its capital structure and effectively manage its working capital requirements would be the key rating sensitivities

Positive:
- Improvement in revenue and profitability on a sustained basis
- Improvement in the capital structure

Negative:
- Further deterioration in scale of operations and/or EBITDA margins due to industry or company-specific factors
- Further decline in debt protection metrics and weakening of financial risk profile

Liquidity Position - Stretched : The company has a stretched liquidity position as reflected by ~95% utilisation of fund based working capital facilities. Current ratio was marginally above unity at 1.04 times as on 31 Mar 2019. Net cash accruals have been negative for the last 3 financial years. Net cash losses were Rs. 3.30 Crs and cash and cash equivalents declined to Rs. 1.74 crs as on 31 Mar 2019.

About the Company
A.I. Enterprises Pvt Ltd (AIEPL) was incorporated in April 2004 at Chennai, Tamil Nadu. The company is mainly engaged in the business of manufacturing and exporting woven and knit garments with manufacturing facilities located at Chennai and Tirupur. AIEPL majorly caters to the export market, exporting its products mainly to USA, European and Middle eastern countries. Exports contributed to 94.30% of revenue generated by sale of garments. The company also has a dealership of Maruti Suzuki

(India) Pvt Ltd for their cars and an established showroom and service shop at ECR, Chennai. Revenue from car dealership contributed to ~42% of the total revenue in FY19.
Mr. Abdul Azeez, Mr. Haji Iqbal, Mrs. Sameen Azeez, Mr. Abdul Majeed, Mr. K V Ramachandran are the directors.

Key Financial Indicators (in Rs. Cr)

Key Parameters	**Units**	**31 March 2018**	**31 March 2019**
Result Type		**Audited**	**Audited**
Total Revenue	Rs. Cr	309.73	280.93
OPBDIT	Rs. Cr	4.87	5.66
PAT	Rs. Cr	(5.58)	(7.91)
Tangible Networth	Rs. Cr	37.46	29.57
Total Debt/Tangible Networth	Times	4.41	6.63
Current Ratio	Times	1.00	1.04

On a provisional basis, the Company has reported a revenue of ~Rs. 139 Crs for 9MFY20.

Key Covenants of the Instrument/Facility Rated
The terms of sanction include standard covenants normally stipulated for such facilities.

Status of Non-Cooperation with Previous CRA - NA
Rating History for the last three years :

Facilities	**Current Rating (March 2020)**			**Rating History#**		
	Tenure	Amount (Rs.Crs)	Rating	2019	2018	2017
Fund Based	Long Term		**BWR B+/Stable Assigned**	NA	NA	NA
Cash Credit		15.00				
ABL - Overdraft		0.83				
Term Loan		6.01				
Fund Based	Short Term		**BWR A4 Assigned**			
PC/PCFC		35.00				
FBP/FBD		18.00				
Non Fund Based						
Bank Guarantee		2.50				
Total		77.34^	**Rupees Seventy Seven Crores and Thirty Four Lakhs Only**			

^Apart from the above mentioned facilities the company has also availed loans against securities from Deutshe Bank AG and PNB Housing Finance aggregating Rs. 25.52 Crs which have not been rated by BWR at the request of the company

Complexity Levels of the Instruments
For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Short Term Debt**
- **Approach to Financial Ratios**
- **Manufacturing Companies**

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A.I. Enterprises Pvt Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1	State Bank of India	Cash Credit	15.00	-	15.00
2		ABL - Overdraft	0.83	-	0.83
3		ABL - Term Loan	6.01	-	6.01
4		Bank Guarantee	-	0.50	0.50
5	UCO Bank	PC/PCFC	-	35.00	35.00
6		Post shipment (FBP/FBD)	-	18.00	18.00
7		Bank Guarantee	-	2.00	2.00
8		ILC/FLC*	-	(2.00)	(2.00)
9		Cash Credit**	(5.00)	-	(5.00)
Total : Rupees Seventy Seven Crores and Thirty Four Lakhs only					77.34^

Sublimit of Bank Guarantee;Sublimit of Post shipment credit; ^Apart from the above mentioned facilities the company has also availed loans against securities from Deutshe Bank AG and PNB Housing Finance aggregating Rs. 25.52 Crs which have not been rated by BWR at the request of the company*

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