



## Rating Rationale

19 Mar 2020

### AKR Industries Private Limited

**Brickwork Ratings reaffirms the ratings for the bank loan facilities of Rs.210.74 Crores of AKR Industries Private Limited (Erstwhile AKR Textile) ('AKR' or 'the Company')**

#### Particulars

Facility <sup>^</sup>	Amount (Rs Crs)		Tenure	Ratings	
	Previous	Present		Previous (03 Apr 2019)	Present
<b>Fund Based</b>					
Term Loan	124.75	95.74	Long Term	BWR BBB/ Stable	<b>BWR BBB/ Stable Reaffirmed</b>
Term Loan (proposed)	-	15.00			
Packing credit (EPC/PCFC)	90.00	90.00	Short Term	BWR A3+	<b>BWR A3+ Reaffirmed</b>
Bill Discounting (LC Backed)	-	10.00			
<b>Total</b>	<b>214.75</b>	<b>210.74</b>	<b>Rupees Two Hundred Ten Crores and Seventy Four lakhs only</b>		

Note: Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings; <sup>^</sup> Annexure I provide bank-wise details of facilities;

#### Rating Action/Outlook

The reaffirmation of ratings continues to reflect the experience of the management in the readymade garment exports industry, integrated facilities with recently concluded backward integration, established & long standing customer base and diversified product portfolio along with locational advantages. However, the ratings remain constrained by thin profit margins, moderate debt protection metrics, fragmented and competitive industry limiting the bargaining power and susceptibility of AKR's margins to volatility in the raw materials and foreign exchange rates. Also, BWR believes that the company is likely to face demand side headwinds in the short term on account of the recent COVID-19 pandemic and is exposed to geographical risks as the company is primarily an exporter with majority exports to the European countries. BWR also notes the irregularity in submission of No default statement (NDS) as per extant regulations, by the company.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR believes **AKR Industries Pvt Ltd's** business risk profile will be maintained over the medium



term. The outlook may be revised to Positive if a sustained increase in scale of operations, higher than envisaged profitability, improved gearing and debt protection metrics result in an improved financial risk profile. The outlook may be revised to Negative if lower than expected revenue or profitability, any adverse impact of COVID19, stretch in the working capital cycle, sizeable and unanticipated capex or weakening gearing adversely impact the financial risk profile.

### **Key Rating Drivers:**

#### **Credit Strengths:**

- **Experienced management** - AKR is promoted by Mr K.Loganathan, who has vast experience in garment exports. The management is supported by a qualified team of experienced professionals. The extensive promoter experience results in a strong relationship with European and American Clientele. The company was incorporated in Feb 2019 and has taken over the operations of the erstwhile partnership firm AKR Textile.
- **Established and integrated manufacturing facilities:** The Company's facilities are fully integrated with the in house production process of knitting, dyeing, embroidery, printing and garmenting. The company's manufacturing facilities are based in Tirupur and Bangalore which has ensured availability of raw material and manpower. The Company operates from 7 production units in Tirupur and 4 units in Bangalore, 1 unit each in Chittoor and Perundurai. The firm has 13 units housed over 29.22 lacs square feet with 5500 Machineries located in Tamilnadu, Karnataka & Andhra Pradesh. During the current fiscal FY20, the company has completed the earlier envisaged backward integration with successful merger of its proprietorship group firm (AKR Fab Industries) engaged in knitting and acquisition of a dyeing unit (SIPCOT Processing Unit) from Rohini Textile Industry Pvt ltd (RTIPL).
- **Reputed Clientele and longstanding relationships with customers:** The company has established long term relationships with multinational apparel companies. The company primarily exports its products to private label brands in the European and American markets. The company's clientele includes major companies like Tom Tailor (Germany), Tommy Hilfiger (pan Europe), Calvin Klein (USA), H & M (Sweden), Bestseller/ Jack and Jones (Denmark), Desigual (Spain) , Abasic (Spain) etc., OVS (Italy). The longstanding relationships with some globally renowned clients with some associations exceeding 15 years, translate into repeat business for the company, providing near to medium term revenue visibility and stability.

#### **Credit Weakness :**

- **Moderate financial risk profile :** The total operating income registered a growth of 7.00% from Rs.430.66 crs in FY18 to Rs.460.82 crs in FY19. EBDITA was flat at



Rs.41.91 cr in FY19. However, PAT improved from Rs.8.31 crore in FY18 to Rs.12.50 crore in FY19. Tangible net worth was Rs.65.94 crores as on 31 Mar 2019 (Rs.80.79 Crs: PY) on account of conversion of the partnership firm to a private limited company, with conversion of partners' capital partly into equity and balance as unsecured loans - unsecured loans were Rs.26.59 cr as on 31 Mar 2019. Gearing deteriorated from 1.80 times as on 31 Mar 2018 to 4.44 times as on 31 Mar 2019 on account of increasing borrowing for the acquisition of RTIPL and merger of AKR Fab Industries. Adjusted Gearing (after considering portion of unsecured loans as quasi equity) is 3.53 times as on 31 Mar 2019. Debt metrics continued to be moderate as reflected in ISCR of 2.14 times and DSCR of 1.61 times as on 31 Mar 2019.

- **Exposure to intense competition:** The ready made garment manufacturing segment is fragmented and intensely competitive. Despite the group's presence in the business for over three decades and established relationships with customers and suppliers, it remains exposed to competition from various players in India and other low-cost ready made garment manufacturers from other countries. This places pressure on its business risk and financial risk profiles.
- **Concentration risk and foreign exchange risk:** AKR's exports constitute ~96% of its revenues with majority exports to Europe and America. The Company has forward contract limits and bill discounting facilities from the bankers to mitigate the associated risks, to a certain extent. Further, during FY19, ~37% of the revenue was from Tommy Hilfger exposing it to customer concentration risks. However, the said customer has a long standing relationship with the promoters. Revenue and profitability are vulnerable to foreign exchange fluctuations.
- **Working capital intensive nature of operations :** The Company's operations are working capital intensive operations as reflected by higher inventory and receivables period owing to the nature of the business. Also, with the recent merger, the inventory levels have increased as on 9M FY20.
- **Impact of COVID-19:** Covid-19 pandemic has resulted in an unparalleled global disruption with drastic containment measures being implemented worldwide. BWR believes that what was considered as an opportunity for Garment exporters with COVID-19 epicentre in China is likely to have an adverse impact with the restrictions/curtailment on consumer mobility across the globe especially Europe and USA. Exports have witnessed a significant drop mainly due to COVID-19, which impacted sentiment in the European market — the largest for Indian exporters. The drop is mainly due to weak buying and many customers going bankrupt or witnessing lower sales. Also, on account of the lockdowns, deferrals of conclaves/ business meets etc, order inflow is likely to be subdued in the short term. A long term adverse impact on profitability and liquidity can not be ruled out if the pandemic prolongs on account of



delays in debtor realisations/ government dues etc. The ability of the company to manage regular order inflow and its operations would be a key rating sensitivity.

### **Analytical approach**

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

### **Rating sensitivities:**

Going forward, the ability of the company to increase its revenue and profitability, effectively manage any impact on business operations due to the recent COVID19 pandemic, ensure equity infusion as envisaged and manage its working capital efficiently would be the key rating sensitivities.

### **Positive**

- Increase in scale of operations with significant growth in revenues and profitability on a sustainable basis.
- Decline in Total Debt/ TNW to below 1.50 times on sustained basis.

### **Negative**

- Deterioration in key credit metrics on account of decline in scale of operations/ order book and sustained pressure on net margins.
- Specific credit metrics which may result in a rating downgrade include deterioration in EBITDA to <5%, Total Debt/TNW exceeding 3 times and DSCR and ISCR declining to below 1.50 times on a sustained basis.
- Continued non-submission of monthly NDS.

**Liquidity - Stretched:** Net cash accruals at Rs. 23.95 cr for FY19 and Rs. 30.03 cr for FY20 are sufficient to cover the CPLTD of Rs. 21.40 cr as on 31Mar2019 and Rs.20.16 cr as on 31 Mar 2020 respectively. Cash and cash equivalents at Rs.2.06 Crs as on 31 Mar 2019 are low. Cash conversion cycle has increased from 48 days as on 31 Mar 2018 to 105 days as on 31 Mar 2019 on account of decline in sundry payables. Current ratio declined from 1.22 times as on 31 Mar 2018 to 1.14 times as on 31 Mar 2019. Average utilisation of limits are in the range of ~90%. Keeping in view the yearly debt repayment of ~Rs 20 cr due in the coming years on account of the recent acquisition, the marginal decline in current ratio and increase in the cash conversion cycle, BWR believes that the company's liquidity would continue to be stretched till the envisaged additional infusion by the promoters.

### **About the Company**

AKR Textile Industries Pvt Limited was established in 2003 as a proprietary concern in Tirupur,



Tamil Nadu. Subsequently, during 2011, the concern was reconstituted as a partnership firm AKR Textile. The partnership firm was converted into a private limited company in Feb 2019. It is engaged in manufacturing and exports of knitted garments where in exports contribute ~96% of the revenue. The firm manufactures a wide range of knitted fabrics such as men’s wear (50%), ladies’ wear (45%), kid's wear (5%) etc. AKR has fully integrated manufacturing facilities with the in house production process of knitting, dyeing, embroidery, printing and garmenting. It is an ISO 9001: 2000 company with most of the factories also being certified as a green factory by PVH (Phillips-Van Heusen Corporation) Social compliance. Presently, the Company operates from 7 production units in Tirupur and 4 units in Bangalore, 1 unit each in Chittoor and Perundurai. During FY20, the company has completed the earlier envisaged backward integration with successful merger of its proprietorship group firm (AKR Fab Industries) engaged in knitting and acquisition of a dyeing unit (SIPCOT Processing Unit) from Rohini Textile Industry.

Mr. K.Loganathan and Mrs.L.Radhika who were the partners in the erstwhile partnership firm continue to hold the entire stake in the newly incorporated company. Mr. K. Loganathan is Chairman and Managing Director, Mrs. L. Radhika is the director and Mr. V Balasubramaniam and Mr. C. Anbarasu are the independent directors.

**Key Financial Indicators:**

Parameters		31 Mar 2018 Audited	31 Mar 2019 Audited
Total Operating Income	Rs. Crs	430.66	460.82
OPBDITA	Rs. Crs	41.12	41.91
Net Profit	Rs. Crs	8.31	12.50
Tangible Net Worth (TNW)	Rs. Crs	80.79	65.94
Total Debt/TNW	Times	1.80	4.44
Adj Total Debt/ TNW	<b>Times</b>	1.80	3.53
Current Ratio	Times	1.22	1.14

During 9MFY20 (provisional), the company has achieved a total operating income of ~Rs. 334 cr

**Key covenants of the facility rated:** The terms of sanction include standard covenants normally stipulated for such facilities.

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

**Rating History for the last three years :**

Facilities	Current Rating (Mar 2020)			Rating History		
	Tenure	Amount (Rs Cr)	Rating	2019	2018	2017
<b>Fund Based</b>				03 Apr 2019	-	27 Dec 2017 <sup>^</sup>
Term Loan	Long Term	95.74	<b>BWR BBB/ Stable</b>	BWR BBB/ Stable	Not rated	BWR BBB/ Stable
Term Loan (proposed)		15.00				
Packing credit (EPC/PCFC)	Short Term	90.00	<b>BWR A3+</b>	BWR A3+	-	BWR A3+
Bill Discounting (LC Backed)		10.00				
<b>Total</b>		210.74	<b>Rupees Two Hundred Ten Crores and Seventy Four Lakhs only</b>			

*The facilities were rated BWR BB+ / Stable / A4+ on 03 Dec 2012, BWR BBB- / Stable / A3 on 24 Feb 2014, BWR BBB / Stable / A3+ on 07 Sep 2015 and BWR BBB / Stable / A3+ on 15 Nov 2016. Rating migrated to rating not reviewed on 28 Mar 2019. # Amount rated: Rs.214.75 crs. @ Amount rated: Rs.133.76 crs. ^ Amount rated: Rs. 133.76 cr.*

**Complexity Levels of the Instruments**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

<ul style="list-style-type: none"> <li>● <b><u>General Criteria</u></b></li> </ul>	<ul style="list-style-type: none"> <li>● <b><u>Manufacturing Companies</u></b></li> </ul>
<ul style="list-style-type: none"> <li>● <b><u>Approach to Financial Ratios</u></b></li> </ul>	<ul style="list-style-type: none"> <li>● <b><u>Short Term Debt</u></b></li> </ul>

Analytical Contacts	Investor and Media Relations
<p><b>Saakshi Kanwar</b>            Manager- Ratings            Board: +91 80 4040 9940 Ext: 364            saakshi.k@brickworkratings.com</p> <p><b>Rajee R</b>            Senior Director – Ratings            Board: +91 80 4040 9940            rajee.r@brickworkraings.com</p>	<p><b>Liena Thakur</b>            Assistant Vice President - Corporate Communications            +91 84339 94686            liena.t@brickworkratings.com</p>

## ANNEXURE I

### Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	Punjab National bank	Packing Credit (EPC/PCFC)		60.00	60.00
2		Term loans	95.74	-	95.74
3		Foreign Bills Discounting under FLC (FOBNLC)	-	10.00	10.00
4	State Bank Of India	Packing Credit (EPC/PCFC)	-	20.00	20.00
5		Foreign Bill Discounting non LC (FBDN)	-	10.00	10.00
6	Proposed	Term Loans	15.00	-	-
<b>Total</b>			<b>110.74</b>	<b>100.00</b>	<b>210.74</b>

*Note: As per PNB sanction, the company has CC (sub limit of EPC) of Rs.10.00 cr, FOBNLC & FOUBNLC (Sub Limit of EPC) of Rs.60.00 cr and FOBP & FOBUP (Sub limit of EPC) of Rs.60.00 cr. As per SBI sanction, 100% interchangeability between EPC and FBDN. Also, the company has Forward Contract limit of Rs.2.00 cr as a sublimit of EPC with SBI.*

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