



## Rating Rationale

### A K R Textile

3 April 2019

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹214.75 Crs of A K R Textile (AKR or the firm).**

Facility	Previous Rated Limit (₹ Crores)	Present Rating Limits (₹ Crores)	Tenure	Previous Rating (Dec 2017)	Present Rating
<u>Fund Based</u>	53.76	124.75	<b>Long Term</b>	BWR BBB (Pronounced BWR Triple B) (Outlook: Stable)	<b>Reaffirmed at BWR BBB</b> (Pronounced BWR Triple B) (Outlook: Stable)
<u>Fund Based</u>	80.00	90.00	<b>Short Term</b>	BWR A3+ (BWR A Three Plus)	<b>Reaffirmed at BWR A3+</b> (BWR A Three Plus)
<b>Total</b>	<b>133.76</b>	<b>214.75</b>	<b>INR Two Hundred and Fourteen Crores and Seventy Five Lakhs Only</b>		

<sup>1</sup>Please refer to BWR website [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the rating assigned

#Annexure I shows details of credit facilities

#### **Rationale/Description of Key Rating Drivers/Rating sensitivities:**

BWR has essentially relied upon the audited financial results of AKR up to FY18, 9MFY19 and projections upto FY20, information and clarifications provided by the firm.

The rating continues to factor in the promoter's experience in the readymade garment exports, established and long standing relationships with reputed companies, diversified product portfolio and locational advantage. However, the rating is constrained by thin profit margins, moderate debt protection metrics, fragmented and competitive industry limiting the bargaining power and foreign exchange fluctuation risk.

Going forward, the ability of the firm to enhance the sales revenues, improve profitability, ensure smooth conversion into a private td company and merger of the dyeing unit and proprietorship group firm and capital structure and manage its working capital efficiently shall be the key rating sensitivities.

## **Key Rating Drivers:**

### **Strengths**

#### Promoters' experience and Established Operations:

The firm is managed by Mr. K. Loganathan who has vast experience in the garment exports. The firm is a family owned partnership firm. Mr. K. Loganathan and Ms. L. Radhika are the partners with a share of 50% each. Such a long presence in the industry has helped the firm to establish a strong relationship with several USA and Europe based garment companies.

#### Established relationship with reputed clients:

AKR has established long term relationship with multinational apparel companies. The firm primarily sells its products to private label brands in the American and European markets. The company's clientele includes major companies like Tom Tailor, Tommy Hilfiger, H & M, Abasic, Best Seller, Desigual, Jack and Jones etc. who have been associated with the company for the past several years.

#### Locational Advantage:

The firm's manufacturing facilities are based in textile hub of India, Tirupur and Bangalore which has ensured availability of raw material and manpower.

#### Moderate financial risk profile:

The operating revenues of the firm increased by 7.4% YoY in FY2018 over the previous fiscal, supported by the addition of new customers. The operating profit margins improved to 9.55% in FY18 compared to 2.75% in the previous fiscal. Deterioration in gearing level of the firm at 1.8 times as on 31 Mar 2018 as against 1.27 times in 31 Mar 2017 due to debt funded capex and moderate coverage indicators reflected in ISCR of 2.8 times and DSCR of 2.33 times as on March 31, 2018.

#### Working capital intensive operations:

The firm has working capital intensive operations as reflected by higher utilization as on due to high inventory and receivables period. The firm maintains high inventory levels at any given point of time due to longer processing cycle and seasonal procurement of raw material. Further, it maintains a large portfolio of its own designs.



Highly competitive and fragmented industry structure:

The industry is characterised by high fragmentation and low entry barriers. The company faces competition from numerous small organised and unorganised players in the domestic as well as international markets, which limits its pricing power with customers.

Foreign exchange exposure:

The firm's profitability is exposed to adverse fluctuations in raw material prices and exchange rate risk, given the high inventory holding period. Further, the firm hedges portion of its foreign receivables by way of forward covers, thus profits remain exposed to exchange rate risk for the unhedged portion.

Constitution as a partnership firm:

The firm is exposed to inherent risk of fluctuations in capital levels due to the withdrawal of partner's capital. Any large withdrawal of capital during the conversion of partnership firm to private limited entity will be key rating sensitivity.

**Rating Outlook: Stable**

BWR believes the AKR's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

**About the Firm**

AKR Textile is a partnership concern operating since 2003 in Tirupur, Tamil Nadu. The firm is a family owned partnership firm. Mr. K.Loganathan and Ms.L.Radhika are the partners with a share of 50% each. The firm is engaged in producing and exporting knitted garments to various countries. Currently, the firm has total 11 production units, 6 units in Tirupur, 4 units in Bangalore and 1 unit in Chittoor.

AKR Textiles is proposed to be converted from a partnership firm into a Private Limited Company, the firm has got MCA approval for the conversion on 26 February 2019. The firm is in the process of acquiring a dyeing unit (SIPCOT Processing Unit) from Rohini Textile Industry Private Limited at a cost of Rs 105.48 Crs which is partly funded by a Bank Loan of Rs 69.68 Crs. This unit would be a backward integration for the garment manufacture as the fabric for the

garments would be processed at this unit. A proprietorship Group firm (AKR Fab Industries) engaged in Knitting and Dyeing is also proposed to be merged with AKR.

### Firm's Financial Performance

Net sales from operations was at ₹404.32 crores in FY18 against ₹374.26 crores in FY17. The net profit of the firm was at ₹8.31 crores in FY18 as against ₹7.23 crores in FY17.

### Rating History for the last three years (including withdrawn/suspended ratings)

Facility	Current Rating (2019)			Rating History		
	Type	Amount (₹ Crs)	Rating	27-Dec-2017	15-Nov-2016	07-Sep-2015
Fund Based	Long Term	124.75	<b>Reaffirmed at BWR BBB</b> (Pronounced BWR Triple B) (Outlook: Stable)	<b>BWR BBB</b> (Pronounced BWR Triple B) (Outlook: Stable)	<b>BWR BBB</b> (Pronounced BWR Triple B) (Outlook: Stable)	<b>BWR BBB</b> (Pronounced BWR Triple B) (Outlook: Stable)
Non Fund Based	Short Term	90.00	<b>Reaffirmed at BWR A3+</b> (BWR A Three Plus)	<b>BWR A3+</b> (BWR A Three Plus)	<b>BWR A3+</b> (BWR A Three Plus)	<b>BWR A3+</b> (BWR A Three Plus)
	<b>Total</b>	<b>214.75</b>	<b>INR Two Hundred and Fourteen Crores and Seventy Five Lakhs Only</b>			

### Key Financial Indicators:

Key Parameters	Units	31 Mar 2017	31 Mar 2018
Result Type		Audited	Audited
Operating Revenue	₹ Cr	374.26	404.32
EBITDA	₹ Cr	21.89	41.12
PAT	₹ Cr	7.23	8.31
Tangible Net worth	₹ Cr	81.37	80.79
Total Debt/Tangible Net worth	Times	1.27	1.80
Current Ratio	Times	1.32	1.22



## Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)

Analytical Contacts	Media
<i>Ms. Vipula Sharma</i>	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>
<i>Director, Ratings</i>	<b>Relationship Contact</b>
<a href="mailto:analyst@brickworkratings.com">analyst@brickworkratings.com</a>	<a href="mailto:bd@brickworkratings.com">bd@brickworkratings.com</a>
<b>Phone: 1-860-425-2742</b>	

### For print and digital media

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

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

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

## About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

**DISCLAIMER**

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.