

Rating Rationale

A K R Textile

December 27, 2017

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹133.76 Crs of A K R Textile (AKR or the firm).

Facility	Previous Rated Limit (₹ Crores)	Present Rating Limits (₹ Crores)	Tenure	Previous Rating (November 2016)	Present Rating
<u>Fund Based</u> Term Loan	59.28*	53.76	Long Term	BWR BBB (Pronounced BWR Triple B) (Outlook: Stable)	Reaffirmed at BWR BBB (Pronounced BWR Triple B) (Outlook: Stable)
<u>Fund Based</u> Packing Credit	60.00	70.00	Short Term	BWR A3+ (BWR A Three Plus)	Reaffirmed at BWR A3+ (BWR A Three Plus)
<u>Non Fund Based</u> FOBNLC/FOUBNLC	(6.00)	(6.00)			
Total	139.28	133.76	INR One Hundred Thirty Three Crores and Seventy Six Lakhs Only		

*Term loan outstanding as on 1 December 2017

†Please refer to BWR website www.brickworkratings.com for definition of the rating assigned

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of AKR up to FY17 and projections upto FY19, information and clarifications provided by the firm.

The rating continues to factor in promoter's experience in the readymade garment exports, established and long standing relationship with global premium brands, healthy order book position, addition of two new manufacturing units, diversified product portfolio, locational advantage, improved revenue in FY17.



However, the rating is constrained by constitution of the firm, 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 level of sales revenues, improve profitability 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 95% and 5%, respectively. Such a long presence in the industry has helped the firm to establish 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 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 past several years providing the company with continued repeat business.

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.

Healthy orderbook position:

The firm has healthy order book position of ₹110 crores as on Oct 30, 2017 which imparts a medium-term revenue visibility to the firm.

Continued Revenue Growth:

The revenue of the company is increased by 31% in FY17 and growing at a CAGR of 22.56% for the last five years.



The firm has recently completed an expansion project adding two new processing units at Bangalore and Chittoor with a capacity of 250 and 850 machines. The new units also have an improved production process with better quality output.

Weaknesses:

Low profitability margin and moderate debt protection metrics:

The profitability margin of the firm continues to remain low and deteriorated from the previous financial year due to increase in administrative expenses and interest and finance charges in FY17.

The coverage indicators continue to be moderate owing to high interest expenses and high debt levels.

Highly competitive and fragmented industry structure:

The industry is highly fragmented, with large number of organized and unorganized players and the firm faces intense competition due to low entry barriers which limits the pricing flexibility.

Foreign exchange exposure:

The company's sales revenues are primarily from exports whereas the procurement is from domestic suppliers exposing it to exchange rate risk.

Constitution as a partnership firm:

The firm is exposed to inherent risk of fluctuation in capital levels due to the withdrawal of partner's capital. The partners have withdrawn a portion of the capital in FY17. Any large capital withdrawal by partners may weaken the capital base and impact the capital structure.

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 13 production units, 9 units in Tirupur, 4 units in Bangalore and 1 unit in Chittoor.

Firm's Financial Performance

Net sales from operations was at ₹374.26 crores in FY17 against 284.30 crores in FY16. The net profit of the firm was at ₹7.23 crores in FY17 as against ₹6.31 crores in FY16.

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

Instrument/ Facility	Current Rating (2017)			Rating History		
	Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	2016	2015	2014
Fund Based	Long Term	123.76	BWR BBB Reaffirmed	BWR BBB	BWR BBB	BWR BBB-
Non Fund Based	Short Term	10.00	BWR A3+	BWR A3+	BWR A3+	BWR A3
Total		133.76	NR One Hundred Thirty Three Crores and Seventy Six Lakhs Only			

Key Financial Indicators:

Key Ratios	FY17
Net Sales (₹ crores)	374.26
PAT (₹ crores)	7.23
Tangible Neworth (₹ crores)	81.37
Debt to Equity Ratio (Times)	1.27
Current Ratio (Times)	1.32

Hyperlink/Reference to applicable Criteria

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

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For print and digital media

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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 Investors queries can be sent to info@brickworkratings.com.



About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been 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 Nationalized 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, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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