

## Rating Rationale

**Brickwork Ratings revises Ratings to 'BWR BBB-' & 'BWR A3' from 'BWR BB+ & BWR A4+' for AKR Textiles Bank Credit Facilities enhanced from ₹ 32.87 Cr to ₹ 49.05 Cr**

Brickwork Ratings has *revised* the following **Ratings**<sup>1</sup> for the Bank Credit Facilities of AKR Textiles (AKR)

Facility	Amount (₹ Cr)	Tenure	Rating
<b>Fund Based</b> Working Capital & Term Loan	<b>6.55</b>	Long Term	<b>BWR BBB-</b> (BWR Triple B Minus)  <b>Outlook: Stable</b>
<b>Non Fund Based</b> Working Capital Limits	<b>42.50</b>	Short Term	<b>BWR A3</b> (BWR A Three )
<b>Total</b>	<b>49.05</b>	<b>INR Forty Nine Crores &amp; Five Lakhs only</b>	

BWR has principally relied upon the audited financial results of AKR Textiles (AKR) for FY11, FY12, FY13, and projected financials for FY14, publicly available information and information/clarification provided by the Company management.

### Company Background:

AKR Textile started in 2003 as proprietary concern in Tirupur, Tamil Nadu. The firm converted itself to Partnership firm on 1st April 2011 with 50%-50% partnership between Mr. K. Loganathan and Mrs L. Radhika . The Firm is engaged in in the business of exporting knitted garments to various countries across the globe. AKR Textile Specializes in knitted fabrics in 100% cotton, Cotton-Polyester Blends, Cotton-Viscose blends, new fibre/yarn as blended bamboo/cotton, Mélange, Organic Cotton, Modal with or without elasthane.

### Manufacturing Facilities:

AKR Textile has 9 units with total capacity of 10.5 Lac garment/ Month, Presently the company average utilization is 85% and produces 9 lac garments per month.

No	Unit name	Location	No. of machinery	Utilization
1	unit-1	Tirupur	160	82%
2	unit-2	Coimbatore	160	85%
3	unit-3	Tirupur	440	84%
4	unit-4	Tirupur	300	89%
5	unit-5	Tirupur	100	90%
6	unit-6	Bangalore	200	80%
7	unit-7	Tirupur	200	85%
8	unit-9	Tirupur	250	86%

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

Additional manufacturing center is planned to be set up at Bangalore. Accordingly arrangements are being made to purchase machinery by availing bank loan.

**Production Facilities:**

AKR Textile has capacity to produce around 11 million fashion garments per annum. AKR Textile has a spacious composite garment manufacturing facilities comprising of Fabric Store, Fabric Cutting, Printing, Embroidery, Sewing, Finishing and Packing in a single place. This enables the factory to provide fast and timely delivery of orders.

AKR Textile has all composite garment manufacturing facilities like Tubular Knitting, Flat knitting, Cutting, Sewing, Printing, Embroidery, and Finishing in a single campus that facilitates the company in achieving greater efficiency in timely completion of orders .The Company has latest state-of-the- art machineries in all the areas of pattern making, cutting, sewing, printing and embroidery.

AKR designers use latest version of Coral Draw, Adobe Illustrator, and Photoshop for designing. All patterns are made using computer with CAD software like Assyst-Bullmer,

**Business Profile:**

AKR Textile production and revenue wise percentage break up is as follows:

Details	Production percentage	Revenue percentage
Men's Fashion Garments	40%	37%
Female's Fashion Garments	40%	43%
<b>Kids Fashion Wear</b>	<b>20%</b>	<b>20%</b>

**Strong Customer Base:** AKR textile has long term association with International well-known Brands like Abasic SA, Mondial , Hilfigher , SAS Jules and Ovissee .The Garments are sold in USA, Spain, Brazil, Netherlands , France & Italy.

**Diversified Supplier Base:** The Firm has diversified suppliers for its raw material requirement. The Firm has strong relationship with its vendors.

**Pricing:**

AKR Textile takes yearly orders from the prospective customers based on prevailing market prices. It gives details of timeline of different processes ( like embroidery, Print, washing etc.) to the client and fixes the raw material cost with the suppliers as soon it has decided on selling prices. The Firm procures the raw material for a contract at once so there it does not have to face any increase in raw material prices.

Once in every three month AKR Textile revises its garment sales prices with foreign customers based on Raw material cost, labour cost, Processing Charges and foreign exchange

movement. Any sharp rise in cost of particular key component of costing gets adjusted in the selling price.

Foreign exchange Exposure – the Firm does not enter into derivative coverage instead depends on price negotiation / revision on quarterly basis.

**Growth Plan:**

- AKR Textile has plans to export Fabric by establishing knitting division within two years . It is expected to raise the profit of the company by 7%.
- The Firm also plans to enter into domestic garment market with its own Brand name, this will result in additional sales turnover of 20% and also build a brand name for the company. The Company has already registered trademark for “Checks & Squires” and “UNI Trend”.
- The Firm is in negotiations for new deals with Big Business houses in Europe and South Africa. A few names are Otto- Germany, Billabong- France and Mr. CAP- South Africa.
- The Firm plans to build its own processing unit which will be established within two years. It will enable the company to increase the sales and profit, as also improve its conversion period.

**Promoters Profile :**

AKR Textile is a Partnership Firm with 50%- 50% Partnership between K. Loganathan & L. Radhika.

**K. Loganathan** -He is qualified in Textile Technology (Engineering degree in Textile ) . For the past 15 years he has been in the field of Export Garment manufacturing and Export activities. He is fully engaged in Client Relationship Management. Under his guidance the company has seen a steady growth in the performance.

**L. Radhika** –She is wife of Mr. K. Loganathan and has B.Sc in fashion Technology . She got more than 5 year of experience in administrative line . As she has a qualification of fashion technology, she takes active part in designing and relevant activities. She is also involved in overall maintenance activities of manufacturing units.

**Financial Performance:**

The Firm has achieved a sales of ₹ 162.93 Cr in FY 13 as compared to ₹135.34 Cr in FY 12 , whereas the Profit has grown to ₹ 3.60 Cr in FY 13 from ₹ 3.27 Cr in FY 12. Till September Quarter for FY 14, The firm has achieved a sales turn-over of Rs.154.20 Cr during the last 9 months against the projected sales of Rs.189.50 Cr for FY 14. The firm has pending orders worth Rs.80 Cr. In case the company is able to complete 50% of pending orders, it will be able to achieve the projected sales for FY14.

It is observed in the recent days that there is a fast change in the consumer's taste, which resulted in increase in number of styles with more value additions. Hence in order to ensure timely shipment, AKR is keeping sufficient stock of accessories. Further, To avoid the impact of yarn price escalation, irrespective of the delivery period, AKR purchase the yarn as soon as the order is confirmed.

The above factors resulted in the increase in the inventory holding period. As some of the recent new buyers insist for usance bills instead of sight bills, The Company had to project more collection period considering the profit margin in their orders.

### **Rating Outlook:**

The Business Risk Profile is constrained by Partnership nature of the Firm and Limited Negotiating Power with the Big Brand Customers. The Firm is operating on very thin profit Margin. Even though on regular basis the Firm has price negotiations with the customers, it is still exposed to high volatility in foreign exchange market. Managing the above mentioned risk along with competition from other foreign and domestic competitors will be vital for its performance.

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