

Rating Rationale

18 Dec 2020

Alpine Knits India Pvt Ltd

Brickwork Ratings upgrades the long term ratings and reaffirms the short term ratings for the Bank Loan Facilities of Rs. 33.50 Crs. of Alpine Knits India Pvt Ltd (hereafter referred to as 'AKIPL' or 'the Company').

Particulars:

Facility	Amount (Rs Cr)		Tenure	Rating#	
	Previous	Present		Previous (25 Sept 2020)	Present
Fund Based					
Term Loans	4.00	0.00	Long Term	BWR B+ Stable *Issuer not Cooperating	BWR BB- Stable Upgraded Removal from *Issuer Not Cooperating' Category
Cash Credit	13.50	18.50			
Non Fund Based :					
ILC/FLC	20.00	15.00	Short Term	BWR A4 *Issuer not cooperating	BWR A4 Reaffirmed Removal from *Issuer Not Cooperating' Category
Total	37.50	33.50	Rupees Thirty Three Crores and Fifty Lakhs Only		

#Please refer to BWR website www.brickworkratings.com/ for definition of the ratings; Details of Bank loan facilities are provided in Annexure-I.

*Issuer did not cooperate, based on best available information.

Rating Action/Outlook

BWR has essentially relied upon the audited financial statements of FY17, FY18, FY19, statements, Provisional FY20 statements and projections upto FY22 of Alpine Knits India Pvt Ltd, publicly available information and information / clarifications provided by the entity's management.

The ratings continue to draw strength from the experience of the directors, long standing relationships with reputed clientele. However, the ratings remain constrained by working capital intensive operations, low debt coverage metrics, high gearing and exposure to foreign exchange risks.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. Brickwork Ratings believes that AKIPL's business and financial risk profile will be maintained

over the medium term. The outlook may be revised to positive if there is improvement in debt protection metrics, revenue and profitability on a sustained basis, leading to strengthening of financial risk profile. The outlook may be revised to negative if there is decline in revenue and profitability and deterioration of gearing and debt coverage metrics, thereby weakening the financial risk profile of the Company.

KEY RATING DRIVERS

The key rating drivers of the company are as follows:

Credit Strengths:

- **Experience of Promoters :** The promoters of the company Mr.Vikramaraj, Mr. R R Shrinivasan ,Mr. Raja M. Shanmugam and Mr.Ramaswamy have more than a decade experience in the textile industry.The company has operational existence since 2004.
- **Geographical advantage :** The company is located at Tirupur, which is a major textile hub. This provides location specific advantages in terms of easy accessibility to raw materials,clientele and availability of labour.

Credit Risks:

- **Stretched capital structure, working capital intensive nature of operation and low DSCR:** The company has stretched capital structure as indicated by total debt to tangible net worth of 9.68x times due to low net worth and high external borrowings .The operations of the company are working capital intensive as indicated by a current ratio of 0.83x in FY19. DSCR stands at 0.85x indicating constraints of the company to meet its debt obligations.
- **Thin profit margins and forex rate fluctuations:** The company has thin net profit margins as indicated by 0.40% as on FY19 mainly due to trading nature of the business.The company is also exposed to forex rate fluctuations however, availment of forward contracts has reduced the exposure to certain extent.
- **Exposed to intense competition and highly fragmented nature of the industry:** The textile industry segment is characterised by high levels of fragmentation and entry barriers in the textile industry are low on account of low capital and technology requirement and low differentiation in the end product, this results in intense competition from organised and unorganised players in the market and limits players pricing power resulting in low profitability. The company faces stiff competition in overseas markets .



- **Impact of Covid -19 :** Covid-19 pandemic has led to business slowdown during Q1FY21 and the challenge for the textile industry will continue even after situation stabilises. Yarn being an intermediate product, is likely to face a ripple effect of the contraction in demand , continue to incur carrying costs for the inventory stocked, cash inflows are expected to start with a lag after the lockdowns are lifted, which are expected to keep their liquidity profiles stretched, particularly for companies with sizeable stocks. The company is exposed to the aforesaid risks. On a provisional basis, the company has achieved a total sales of Rs. 63.80 Crs in FY21 till date. The company is confident that once the situation stabilises, recovery will be easier and smoother considering the company's long standing relationship with its customers and suppliers.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, Brickwork Ratings has adopted a standalone approach and applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward, the ability of the concern to achieve projected revenue & profitability margins and manage liquidity would be the key rating sensitivities.

Positive:

- Improvement in scale of operations and profitability on a sustained basis
- Improvement in liquidity position and debt protection metrics of the company

Negative:

- Decline in net sales and profitability
- Further deterioration in gearing and debt coverage metrics due to increase in debt level

Liquidity Position: Stretched

Liquidity is marked by moderate net cash accruals of Rs 2.07 Crs viz a viz repayment obligations i.e. CPLTD of Rs 0.69 Crs in FY 19, highly utilized bank limits of ~ 90% on an average and modest cash balance ₹ 5.35 Crs in FY19. The days receivable are within 90 days and have improved from 56 days to 53 days in FY 19. ISCR is above average at 2.46x in FY19. However, the company has low debt protection metrics i.e DSCR at 0.85x, and current ratio at 0.83x and high gearing ratio in FY19 indicating liquidity stress. As per the banker's feedback , the company has availed moratorium issued by RBI under COVID-19 issue.

COMPANY PROFILE

M/s Alpine Knits India Pvt Ltd was established in 2002. The company is promoted by Mr. Vikramaraj, Mr. R R Shrinivasan, Mr. Raja M. Shanmugam and Mr. Ramaswamy. The company is primarily involved in doing agency business for a host of sewing machinery brands from Singapore, Japan and other countries. The company is involved in wholesale trading of various imported sewing machines. The company also operates a spinning mill which started in 2007. The company's manufacturing unit is located in Palladam taluk, Tiruppur. The spinning

mill operates three shifts per day having 24000 spindles in FY19 which is utilized at 100%. Total number of employees working in the company are Permanent- 350 approximately

Financial Performance

Key Parameters	Units	FY19	FY18
Result Type		Audited	Audited
Operating Revenue	Rs. Cr.	126.47	120.90
EBITDA	Rs. Cr.	14.36	3.32
Net Profit	Rs. Cr.	0.50	0.37
Tangible Net Worth	Rs. Cr.	3.88	3.42
Total Debt : Tangible Net Worth	Times	9.68	12.30
Current Ratio	Times	0.83	0.78

The Company has reported revenue of ~Rs 109.17 Crs. in FY20, on a provisional basis.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Facilities	Current Rating (Aug 2020)			Rating History [^]		
	Tenure	Amount (Rs Crs)	Rating	25 th Sept 2020	17 th Aug 2018	4 th April 2017
Fund Based						
Cash Credit	Long Term	18.50	BWR BB-Stable Upgraded Removal from *'Issuer Not Cooperating' Category	BWR B+ Stable *Issuer Not Cooperating	BWR BB Stable	BWR BB Stable
Non-fund Based						
IL/FLC	Short Term	15.00	BWR A4 Reaffirmed Removal from *'Issuer Not Cooperating' category	BWR A4 *Issuer Not Cooperating	BWR A4+	BWR A4+
Total		33.50	Rs Thirty Three Crores and Fifty Lakhs Only			

Note:. Rs. 44.33 Crs. of the Company's bank loan facilities were initially rated as BWR BB/Stable/A4+ on 04 April 2017.



^The ratings were moved to 'Not Reviewed' category in August 2019

Complexity Levels of the Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to Applicable Criteria

• General Criteria	• Manufacturing Companies
• Approach to Financial Ratios	• Short Term Debt

Analytical Contacts	
AKILA M Rating Analyst B: +91 044 2466 3326 akila.m@brickworkratings.com	R VARADARAJAN Associate Director - Ratings B: +91 044 2466 3326 varadarajan.r@brickworkratings.com
1-860-425-2742	media@brickworkratings.com

ANNEXURE I

Alpine Knits India Pvt Ltd

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	Canara Bank	Cash Credit	18.50	-	18.50
2		ILC/FLC	-	15.00	15.00
Rupees Thirty Three Crores and Fifty Lakhs Only					33.50



For print and digital media

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