Rating Rationale

Apex Coco and Solar Energy Limited

Nov 20, 2017

Brickwork Ratings revises long term ratings and withdraws short term ratings for the Bank Loan Facilities of ₹ 230.03 Crores of Apex Coco and Solar Energy Limited (*'The Company or Apex')* erstwhile Apex Clothing Company India Pvt. Ltd.

Particulars

Facility	Previous Limits (₹ Crs)	Present Limits (₹ Crs)	Tenure	Rating History Aug 2016	Review Rating*
Fund Based					
Existing **Proposed**	143.81 67.50	195.78 34.25	Long Term	**BWR BBB-(SO)** (BWR Triple B Minus) **Outlook: Stable Upgradation**	**BWR BBB (SO)** (BWR Triple B) **Outlook: Stable Upgradation**
Proposed	30.00	---	Short Term	**BWR A3** (BWR A Three) **Assigned**	**Withdrawal**
Total	**241.31**	**230.03**	**INR Two Hundred and Thirty Crores and Three Lakhs only**		

Complete details of Bank facilities is provided in Annexure-I
*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Note: Structured Obligation (SO) assigned based on Letter of Comfort received from promoter companies.

Ratings: Long Term ratings upgraded/Withdrawal of short term rating

Brickwork Ratings revises long term ratings to **'BWR BBB (Outlook: Stable)'** to the long term facilities and withdraws rating **'BWR A3'** to the short term facilities of **Apex Coco and Solar Energy Limited.**

Rationale/Description of Key Rating Drivers/Rating sensitivities:
BWR has essentially relied upon audited financial results up to FY17, Projected financials up to FY21, publicly available information and information provided by the Company's management.

The ratings revision is on account of improvement in scale of operations and net profit margins, favorable tangible networth, PPA being in place with the customers for solar division, part of the coconut processing plant commencing operations in November, 2017, experienced promoters, promoters contribution for the ongoing capex infused in FY17, managerial and financial support from promoter companies and letters of comfort from the institutional shareholders of the Company (Promoter Companies). However, the ratings are constrained by high gearing level, high receivables, and inexperience of the directors in the coconut processing sector.

Going forward, ability of the company to achieve the projected revenues and profitability, to sustain the PLF achieved in solar division, complete the ongoing capital expenditure as per the scheduled time frame and within the estimated cost by April 2018 will remain key rating sensitivities.

Description of Key Rating Drivers

Credit Strengths

- **Improvement in scale of operations and Tangible networth:** Revenues from operations of the company improved by 25% in FY17 i.e. from Rs. 27.28 crs in FY16 Crores to Rs. 34.11 Crores. Tangible networth of the company improved from Rs. 39.46 Crores to Rs. 50.38 Crores on account of infusion of share capital to an extent of Rs. 7.00 Crores and retention of profits.
- **Implementation of ongoing capex:** Company has completed few sections of the ongoing capital expansion and commercial operations of this section is expected to commence from December, 2017 onwards. DCCO for the entire coconut processing plant is estimated to be in April, 2017.
- **Share in Promoters' Contribution:** Promoters' contribution for ongoing capex of 31.52% i.e. Rs. 36.25 Crores was infused in the Company in FY17 in the form of share capital (Rs. 7.00 Crores) and unsecured loans (Rs. 29.51 Crores).
- **Letter of Comforts:** Apex has submitted Letters of Comfort from its institutional shareholders.

Credit Risks:

- **High Gearing level:** Company total debt to tangible networth has improved in FY17 when compared with FY16. However,the gearing level is expected to deteriorate further in medium term on account of ongoing Capex.
- **Elongated receivables:** In FY17, Receivables have increased from 62 days in FY16 to 100 days in FY17 on account of delay in payments from TANGEDCO.
- **Diversification of Business:** Promoters of the Company are experienced in the field of Textile and Solar Industry. Company has now diversified its business operations to Coconut Processing where the promoters do not have any prior experience .

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

BWR believes the **Apex Coco and Solar Energy Limited** 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 Company

Apex Coco and Solar Energy Ltd, formerly known as Apex Clothing Company India Ltd incorporated in November, 2012. In January, 2016, name of the company has changed to Apex Coco and Solar Energy Ltd.

Apex has successfully implemented its solar power generation unit in three phases i.e. 15MW, 5MW and 10MW which were commissioned during March, 2014, April, 2014 and October 2015 respectively. Apex is selling the power generated from its 15MW and 5MW units to its associate companies and power generated in the 10 MW plant power is sold to Tamil Nadu State Electricity Board (TNSEB). The PPA has been made between Apex and TNSEB for period of 25 years.

Ongoing Capex:

The company is setting up an integrated coconut processing manufacturing unit at Devanallur, Tirupur (Dt.), Tamil Nadu. Product portfolio includes Coir Fibre, Peat, Coconut Shell, Coconut Oils, Coconut Milk, Coconut Flour and Coconut Water. The land for the new unit has been acquired on lease basis from its group concern *'Apex Parivar Infra & Solar Power Private Ltd'* for a lease period of 33 years.

Total project cost is revised to Rs. 115.00 Crores from Rs.90.00 crores on account of additional machinery included in the project. Out of total project cost, Rs. 36.25 Crs will be funded through promoter's contribution, and Rs.78.75 crores is funded by bank loans.

Till Oct 31, 2017 total expenses incurred was at Rs.88.00 crores. Company has now completed installation of machinery for Coir fibre, peat and Charcoal section and trial run is being undertaken currently. Company will commence operations in this particular section (Coir fibre, peat and Charcoal section) from December 1, 2017. Date of Commencement of Commercial Operations (DCCO) of the coconut processing project is April 2, 2018.

Company Financial Performance

As per FY17 audited financials, scale of operations of the company improved from Rs. 27.28 in FY16 Crores to Rs. 34.11 Crores. Net Profit margin of the Company has improved from 7.39% in FY16 to 11.47% in FY17. Total debt to Tangible networth when adjusted with unsecured loans stood at 2.36X. Tangible networth of the Company was at Rs. 50.38 Crores as on 31 March 2017.

Rating History for the last three years

Instrument /Facility	Current Rating (Nov, 2017)			Rating History		
	Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	Aug 3, 2016	Jul 2, 2015	Feb 7, 2014
Existing Proposed	Long Term	195.78 34.25	**BWR BBB (SO)** (BWR Triple B) **Outlook: Stable Upgradation**	**BWR BBB- (SO) Outlook: Stable**	**BWR BB Outlook: Stable**	**BWR B+ Outlook: Stable**
Proposed	Short Term	---	**Withdrawal**	**BWR A3* Assigned**	**--**	**--**
Total		**230.03**	**INR Two Hundred and thirty crores and three lakhs only**			

*Amount Rated for Rs. 30.00 crores
Note: Structured Obligation (SO) assigned based on Letter of Comfort received from promoter companies.

Annexure-I

Type of Instrument	Previous Amount (₹ Crores)	Review Amount (₹ Crores)		
Name of the Bank	Syndicate Bank	Syndicate Bank	Canara Bank	Total Amount
Fund Based Limits				
Term Loan-I	33.01	26.85	60.00	86.85
Term loan – II	60.80	52.35	---	52.35
Term Loan – III	50.00	49.58	---	49.58
Term Loan- Proposed	67.50	18.75	---	18.75
OCC/ODBD	---	15.50 (Proposed)	7.00	22.50
Working capital (EPFC)- (Proposed)	30.00	---	--	--

Total	241.31	163.03	67.00	230.03

Annexure-II

Key Parameters	Units	FY16 (Audited)	FY17 (Audited)
Net Income	₹ Crs	27.28	34.11
EBITDA	₹ Crs	31.18	38.06
PAT	₹ Crs	3.91	7.55
Tangible Net worth	₹ Crs	39.46	50.38
Total Debt/Tangible Net worth	In X	4.82	3.54
Current Ratio	In X	0.36	0.48

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratio**
- **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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