

## Rating Rationale

**Brickwork Ratings assigns Rating of ‘BWR BB+’ for the long-term Bank Loan Facilities of ₹ 2.87 Cr and Rating of ‘BWR A4+’ for short-term facilities of ₹30 Cr for AKR Textile (AKR)**

**BLR Issue Rating: BWR BB+**

**Outlook : Stable**

Brickwork Ratings (BWR) has assigned the rating of ‘BWR BB+’ (Pronounced BWR Double B Plus) with a stable outlook for Long term Bank Loan Facilities of INR 2.87 Crs of AKR Textile. The rating “BWR BB+” stands for Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations.

Brickwork Ratings (BWR) has also assigned the rating of BWR A4+ (Pronounced BWR A four Plus) for the short term Bank Loan Facilities of AKR Textile. The rating “BWR A4+” stands for Instruments with this rating are considered to have minimal degree of safety regarding timely payment of financial obligations. Such instruments carry very high credit risk and are susceptible to default.

### 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%

**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

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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 revelent activities. She is also involved in overall maintenance activities of manufacturing units.

### Financial Performance:

The Firm has achieved a sales of ₹ 134.5 Crores in FY 12 as compared to ₹137.85 Crores in FY 11 , whereas the Profit has grown to ₹ 3.27 Crores in FY 12 from ₹ 2.72 Crores in FY 11. Till September Quarter for FY 13, The Firm has achieved a sales of ₹ 91.60 Crores and is expected to achieve projected sales of ₹ 160.99 Crores for FY 13.

**Table 1: Abridged Income Statement**

Crores	31-03-2010	31-03-2011	31-03-2012
Result Type	Audited	Audited	Audited
Gross Sales	111.84	137.85	135.34
Net Sales	111.84	137.85	135.34
Other Operating Income	8.9	8.76	7.96
Total Operating Income	120.74	146.61	143.3
Operating Expenses	112.35	136.31	134.5
Operating Profit Before Depreciation, Interest and Taxes	8.39	10.31	8.8
Depreciation/Amortization/Impairment	1.99	2.66	2.84
Operating Profit Before Interest and Tax	6.4	7.65	5.96
Interest and Finance Charges	2.3	3.89	4.16
Operating Profit Before Tax	4.09	3.76	1.8
Non Operating Income(Expenses)	0.29	0.46	1.48
Profit Before Tax	4.38	4.22	3.28
Provision for Taxes	0.94	1.5	0.01
Adjusted Profit After Tax(Continuing Operations)	3.44	2.72	3.27
Adjusted Profit After Tax	3.44	2.72	3.27

**Table 2: Abridged Balance Sheet**

Crores	31-03-2010	31-03-2011	31-03-2012
Result Type	Audited	Audited	Audited
<b>EQUITY AND LIABILITIES</b>	<b>10.33</b>	<b>14.69</b>	<b>18.71</b>
Share capital	6.89	11.97	15.44
Reserves and Surplus	3.44	2.72	3.27
Non-current liabilities	13.99	14.45	11.32
Long-Term Borrowings	13.99	14.45	11.32
Current liabilities	19.96	37.54	30.49
Short-Term Borrowings	11.62	31.59	27.73
Trade Payables	0.62	0.5	0.51
Other Current Liabilities	7.71	5.46	2.26
Total Liabilities	44.27	66.68	60.52
<b>ASSETS</b>			
Non-current assets	16.3	16.31	18.54
Net Fixed assets	16.3	16.31	18.54
Current assets	27.97	50.37	41.98
Current Investments	5.58	3.01	2.24
Inventories	13.78	22.75	23.46
Trade Receivables < Six Months	0.1	0.13	0.1
Cash and Cash Equivalents	1.3	5.33	0.48
Short-Term Loans and Advances	7.2	19.15	15.7
Total Assets	44.27	66.68	60.52

**Table 3: Key Ratio\***

Key Ratios	2010	2011	2012
Total Debt/ Tangible Networth	2.48	3.13	2.09
Interest Service Coverage Ratio	3.64	2.65	2.11
Debt Service Coverage Ratio	0.98	0.41	1.78
Tangible Net Worth	10.33	14.69	18.71
Net Profit Margin	3.07	1.97	2.41
Net Cash Accruals/Total Debt	0.21	0.12	0.18
ROCE	37.22	16.77	12.56
Current Ratio	1.4	1.34	1.38

\*As Per BWR Calculation

### 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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