

Rating Report

Brickwork Ratings assigns 'BWR B+' for the long-term Bank Loan Facilities aggregating ₹ 100 Cr sanctioned to Apex Clothing Company India Pvt. Ltd.

Brickwork Ratings (BWR) has assigned the following **Rating¹** for the Bank Loan Facilities of Apex Clothing Company India Pvt. Ltd.

Facility	Amount (₹ Cr)	Tenure	Rating
Term Loan 1 (Fund Based)	39.20	Long Term	BWR B+ (BWR B Plus) (Outlook: Stable)
Term Loan 2 (FLC to be converted into Term Loan)	60.80		
Total	100.00	(INR One Hundred Crores only)	

The rating has factored, inter alia, the team of qualified and experienced directors, the track record of promoting firms/companies and minimal operational cost involved with running a solar plant resulting in higher margins. However, the rating is constrained by the project implementation risk, risk of being unable to achieve the projected revenues and profitability and regulatory risk.

Background:

ACCIL was incorporated as a Private Limited company in November 2012 for setting up an integrated textile unit in the state of Gujarat., There was a delay in obtaining the necessary land allotment from the Gujarat Industrial Development Corporation (GIDC). Meanwhile, in order to leverage on the power shortage in the state of Tamil Nadu and the Renewable Energy Certificate mechanism that is prevalent in respect of Solar power generation, the company now proposes to set up a 20 MW solar power plant in the state of Tamil Nadu to provide power to its promoter companies.

The promoters are promoters of Alpine Group , Warsaw Group, Anugraha Group, Armstrong Group, Prime Tex Group and DMR Group which are all involved in the textile and readymade garments business.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

Management Profile:

There are nine promoters/directors in the company and all of them are associated with promoter group companies of ACCIL. All the promoters are highly experienced and have an average experience of more than 20 years in the Textile Industry. The combined turnover of the group is more than Rs.750 crs. Brief profile of the directors is given below:

S.N	Director Name	Profile of the Director
1	E Palanisamy	Associated with the Armstrong Groups of companies. First generation entrepreneur with more than 45 years experience in textile manufacturing field, one of the founder of Tiruppur Industrial Cluster, with a group turnover of over 150 Crs. The group has got an integrated textile set up with spinning, knitting, dyeing and garmenting units.
2	R Govindaraju	Associated with the Prime Tex Groups of companies. He is a Mechanical Engineer and he is also a first generation entrepreneur with more than 25 years of experience in garment manufacturing field with a group turnover of over 110 crs. Group is having its own spinning, knitting and garmenting units at various location of Tiruppur .
3	Raja M Shanmugam	Associated with the Warsaw Groups of companies. He is first generation entrepreneur with over 20 years of experience in garment export industries with a group turnover of over 125 Crs. Group is having its own spinning, knitting and garmenting units at various location of Tiruppur.
4	P Moghan	Associated with the Anugraha Groups of companies. He is first generation entrepreneur with over 20 years of experience in garment export industries, group turnover of over 125 Crs. Group is having its own spinning, knitting and garmenting units at various location of Tiruppur.
5	R R Shrinivasan	He is associated with Alpine Group of companies. He is a Engineer and hails from a family of entrepreneur. Alpine Knits India Pvt ltd is in the agency business of machinery brands from Japan and other countries. This group has got its spinning unit and a group also has interest in dyes trading and textile testing services with an overall group turnover of 80 Crs.
6	M Ramasamy	He is younger brother of promoter shri.Raja M Shanmugam, he is looking after the production and spinning divisions of the group.
7	P Vikramraj	He is associated with Alpine Group of companies. He is a Engineer and hails from a family of cotton traders. Alpine Knits India Pvt ltd is in the agency business of machinery brands from Japan and other countries. This group has got its spinning unit and a group also has interest in dyes trading and textile testing services with an overall group turnover of 80 Crs
8	S D Rathinasabapathi	Associated with the D M R Groups of companies. He is from the family of textile entrepreneurs in spinning and domestic garment business with an overall group turnover of over 90 Crs.
9	Atul Mehta	He has a license from Bombay Stock Exchange and he is running a business of Stock Broking in Mumbai. He is proposed to look after the public issues, proposals of the companies.

Project details:

ACCIL proposes to set up a solar power generation unit of 20 MW at an estimated cost of Rs. 141.25 crs. This is proposed to be funded by promoters' contribution of Rs. 41.25 crs and Bank loan of Rs. 100.00 crs. As on December 31, 2013, the company has incurred Rs. 98.47 crs towards the project and has completed approximately 70% of the project. The project is expected to commence generation of power by Feb-March 2014.

In FY13 the revenue of the company was Rs. 0.42 Cr with a Net Margin of 0.02%. The revenue came from trading of readymade garments.

For the first full year of operations i.e. FY14, the company has projected revenues of Rs. 23.10 crs and net profit of Rs. 10.41 crs.

Key Rating Determinants:

Experienced Promoters: The promoters/directors of the company are all well qualified and experienced. The average experience of the directors is of two decades.

Well Established group presence: All the other group companies of ACCIL have a well established presence in the textile industry in Tirupur. The companies operate in every sphere of the textile industry from spinning to knitting to garment manufacturing and exports.

Minimal Operational Risk: The company is in the process of constructing a solar power plant and there are very low operational costs involved with running a solar plant. Commissioning of a solar plant involves a one time capital expenditure followed by negligible operational & maintenance costs which result into very high Operating Margins.

Timely Project Execution Risk: The project is already delayed and there is a risk of it getting delayed further. As per the initial project report, the project was expected to get completed by October 2013 but the latest status report says that till December 31, 2013 only 70% of the work has been completed. Now the project is expected to get completed by Feb-March 2014.

Possibility of Delayed Payments: The entire energy generated will be sold to the group companies of ACCIL. This means that there exists a risk of delayed payments from them as they will be paying as per their convenience. Also, there are chances that the price determined for the sale of power will be biased to benefit the group companies which may result into lower revenues for ACCIL

Rating Outlook:

The ability of the company to complete the project within the estimated time, comply with the regulatory requirements and achieve the projected revenue and profitability levels remain the key rating sensitivities. The outlook is stable.

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Annexure I – Profit & Loss Account Summary

Particulars	2013 (A)	2014 (P)	2015 (P)	2016 (P)
Net Sales	0.42	23.10	46.20	46.20
Other Operating Income	0.03	0.00	0.00	0.00
Total Operating Income	0.45	23.10	46.20	46.20
Cost of Goods Sold	0.39	0.60	1.20	1.20
Selling, General and other Administrative expenses	0.05	0.06	0.09	0.09
Operating Expenses	0.44	0.66	1.29	1.29
OPBDIT	0.01	22.45	44.91	44.91
Depreciation/Amortization	0.00	8.69	16.18	13.93
Operating Profit Before Interest and Tax	0.01	13.75	28.73	30.98
Interest and Finance Charges	0.00	3.34	3.97	3.88
Operating Profit Before Tax	0.01	10.41	24.77	27.09
Non Operating Income(Expenses)	0.00	0.00	2.71	6.07
Profit Before Tax	0.01	10.41	27.47	33.17
Adjusted Profit After Tax	0.01	10.41	27.47	33.17

Annexure II – Balance Sheet Details

Particulars	2013 (A)	2014 (P)	2015 (P)	2016 (P)
EQUITY AND LIABILITIES	-	-	-	-
Share capital	0.09	25.00	25.00	25.00
Share Application Money Pending Allotment	1.57	-	-	-
Reserves and Surplus	0.01	10.41	37.88	71.05
Non-current liabilities				
- Long-Term Borrowings	0.00	118.20	113.63	87.21
Current liabilities				
- Other Current Liabilities	0.24	0.01	0.01	0.01
Total Liabilities	1.91	153.62	176.52	183.26
ASSETS	-	-	-	-
Non-current assets	-	-	-	-
- Net Fixed assets	0.00	116.31	100.13	86.20
Current assets	-	-	-	-
- Trade Receivables < Six Months	0.00	1.93	3.85	3.85
- Cash and Cash Equivalents	0.10	3.55	1.09	3.97
- Other Current Assets	1.81	31.83	71.45	89.24
Total Assets	1.91	153.62	176.52	183.26

Annexure III – Key Financial Ratios

Key Ratios	Units	2013 (A)	2014 (P)	2015 (P)	2016 (P)
Total Debt/ Tangible Networth	Times	0.00	3.34	1.81	0.91
Long Term Debt/Tangible Networth	Times	0.00	3.34	1.81	0.91
TOL/Tangible Networth	Times	0.14	3.25	1.76	0.88
Interest Service Coverage Ratio	Times	30.94	6.71	11.32	11.56
Debt Service Coverage Ratio	Times	19.15	6.71	2.28	2.53
Tangible Net Worth	Crores	1.67	35.41	62.88	96.05
Net Profit Margin	%	0.02	0.45	0.59	0.72
Operating Profit Margin	%	0.03	0.97	0.97	0.97
Net Cash Accruals/Total Debt	Times	NA	0.16	0.38	0.54
Net Cash Accruals/Long Term Debt	Times	NA	0.16	0.38	0.54
ROCE	%	0.01	0.18	0.17	0.17
Current Ratio	Times	7.99	3731.17	7638.78	9706.42