

## Rating Rationale

### Brickwork Ratings assigns 'BWR BB-' & 'BWR A4' for the Bank Credit Facilities aggregating ₹ 28.50 Cr of Arora Knit Fab Pvt. Ltd.

Brickwork Ratings assigns the following Ratings<sup>1</sup> for the Bank Loan Facilities of Arora Knit Fab Pvt. Ltd.

Facility	Limits (₹ Cr)	Tenure	Rating
Cash Credit(CC)	28.50	Long Term	<b>BWR BB-</b> (BWR Double B Minus)  <b>Outlook-Stable</b>
Inland LC (Sublimit of CC)	(2.00)	Short Term	<b>BWR A4</b> (BWR A Four)
<b>Total</b>	<b>28.50 (INR Twenty Eight Crores &amp; Fifty Lakhs only)</b>		

BWR has principally relied upon the audited financial results up to FY 12, provisional financials of FY13 and projected financials of FY 14 and FY 15, publicly available information and information/clarification provided by the Company management.

The ratings factor, inter alia, experience of the promoters of more than three decades in the knitting business and established market presence in the knitted fabrics market. The ratings also draw comfort from the established marketing and distribution network of the company and integrated nature of operations covering knitting, dyeing, printing and finishing. However, the ratings are constrained by below average financial risk profile marked by low net worth, low profitability margins, high gearing and modest debt protection metrics. The ratings are further constrained due to foreign exchange losses on account of outstanding foreign currency loan to the tune of ₹1.09 crores in FY12 and ₹1.05 crores in FY13. The profitability of FY14 also is likely to be adversely affected, if the Rupee depreciates significantly during this current financial year. The ratings are also constrained on account of Industry characterized by intense competition from organized as well as unorganized players leading to stress in profitability and working capital intensive nature of operations

#### Company Background

Arora Knit Fab Pvt Ltd (AKFPL) was set up as knitting unit in the year 1982 known as Arora Knitwears under proprietorship of Mr. Mohinder Singh Arora. The company was converted into a private limited company in November 2000. Mr.M.S.Arora and his brother Mr. R.S.Arora, are the promoters of the company, and they, along with their family members hold most share-capital.

The Company is currently engaged in the manufacturing of Knitted Fabrics, Garments & Blankets, which are sold domestically. The main product line of the company includes

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

Knitted fabrics such as Cotton Velour, Anti-Pilling, Polar Fleece, 100% Cotton Fleece, 100% Polyester Polar Fleece, Anti-Pilling Polar Fleece, etc. The company has its manufacturing facility in Ludhiana, Punjab. The current capacity of the plant is to produce 25 tons of Knitted Fabric per day.

### Group Company

AKFPL has a group concern Arora Industries (AI) which is a partnership firm & was established in 2007. The firm manufactures polyester fabrics, mink blankets & garments. The firm has similar operations as AKFPL but the product line is different as AKFPL is primarily manufacturing Knitted Fleece whereas AI is into manufacturing of Mink blankets.

### Financial Performance

AKFPL's net sales have grown by 4.8% to ₹168.26 Cr in FY13 compared to ₹160.46 Cr in FY12 and ₹114.55 Cr in FY11 the company's operating profit has improved to ₹4.72 Cr in FY12 from ₹3.43 Cr in FY11 and further improved to ₹5.03 Cr in FY13. The operating profit margin however has remained around 3% for the last 3 years. The net profit of the company, however, was low and stood at ₹0.07 Cr in FY11, ₹0.10 Cr in FY12 and ₹0.34 Cr in FY13. The net profit margin has been low on account of high interest and finance costs as well as loss on foreign exchange fluctuations on account of outstanding foreign currency loan. The networth of the company was ₹8.95 Cr in FY11, ₹9.04 Cr in FY12; however the same declined to ₹8.91 crores in FY13 in spite of posting profits as the company adjusted capital subsidy of ₹0.48 Cr considered under TNW earlier. The gearing which is computed as Total Debt upon Tangible Networth was 2.46x in FY11, which deteriorated to 2.83x in FY12 and further deteriorated to 3.63x in FY13 on account of increase in unsecured borrowings. However considering unsecured borrowings as quasi equity as the same are from promoters' friends and associates and are long term in nature, the gearing comes out to be 1.26x in FY13 and 1.13x in FY12 which is comfortable. The interest Service coverage ratio was comfortable at 1.25x in FY12 and FY13. The current ratio was also comfortable at 1.55x in FY12 and 1.51x in FY13.

### Outlook:

The outlook for the next 12 months is expected to be stable. The company has suffered losses on account of adverse foreign exchange fluctuation on its outstanding foreign currency loan compared to its modest networth, and this trend could continue in FY14 as well. Ability of the Company to improve its top line, as also profitability margins coupled with mitigation of foreign exchange risk, are the key rating sensitivities

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## Annexures: Key Financials

Annex I: Balance sheet of AKFPL

₹ Crores

Particulars	FY2010	FY2011	FY2012
Result Type	Audited	Audited	Audited
<b>EQUITY AND LIABILITIES</b>	<b>8.88</b>	<b>8.95</b>	<b>9.05</b>
Share capital	3.35	3.35	3.35
Reserves and Surplus	5.52	5.60	5.69
<b>Non-current liabilities</b>	<b>9.46</b>	<b>11.90</b>	<b>11.10</b>
Long-Term Borrowings	9.46	11.90	11.10
<b>Current liabilities</b>	<b>26.35</b>	<b>21.06</b>	<b>23.93</b>
Short-Term Borrowings	12.36	13.46	21.72
Trade Payables	13.40	6.67	1.18
Other Current Liabilities	0.46	0.38	0.38
Short-Term Provisions	0.12	0.54	0.65
<b>Total Liabilities</b>	<b>44.69</b>	<b>41.90</b>	<b>44.08</b>
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>8.97</b>	<b>8.42</b>	<b>6.95</b>
Net Fixed assets	7.98	6.95	6.33
Long Term Loans and Advances	0.15	0.87	0.62
Receivables > Six Months	0.83	0.59	-
<b>Current assets</b>	<b>35.71</b>	<b>33.48</b>	<b>37.13</b>
Inventories	29.13	22.11	23.28
Trade Receivables < Six Months	3.98	7.74	11.63
Cash and Cash Equivalents	1.03	3.06	1.58
Short-Term Loans and Advances	1.57	0.57	0.63
<b>Miscellaneous Expenditure To the Extent Not Written off</b>	<b>0.01</b>	<b>0.00</b>	<b>0.00</b>
<b>Total Assets</b>	<b>44.69</b>	<b>41.90</b>	<b>44.08</b>

Annex II: Income Statement of AKFPL

₹ Crores

<b>Particulars</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>
<b>Result Type</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
<b>Net Sales</b>	<b>76.23</b>	<b>114.55</b>	<b>160.46</b>
Other Operating Income	0.49	-	-
<b>Total Operating Income</b>	<b>76.72</b>	<b>114.55</b>	<b>160.46</b>
<b>Operating Expenses</b>	<b>73.79</b>	<b>111.12</b>	<b>155.74</b>
<b>Operating Profit Before Depreciation, Interest and Taxes</b>	<b>2.93</b>	<b>3.43</b>	<b>4.72</b>
Depreciation/Amortization/Impairment	0.97	1.02	0.92
<b>Operating Profit Before Interest and Tax</b>	<b>1.96</b>	<b>2.41</b>	<b>3.80</b>
Interest and Finance Charges	1.77	2.36	3.77
<b>Operating Profit Before Tax</b>	<b>0.19</b>	<b>0.04</b>	<b>0.03</b>
Non-Operating Income(Expenses)	(0.06)	0.12	0.27
<b>Profit Before Tax</b>	<b>0.13</b>	<b>0.17</b>	<b>0.30</b>
Extraordinary/Prior Period - Income(Expense)	-	0.05	(0.05)
Provision for Taxes	0.12	0.14	0.15
<b>Adjusted Profit After Tax</b>	<b>0.00</b>	<b>0.07</b>	<b>0.10</b>

Annex III: Ratio Analysis of AKFPL

<b>Particulars</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>
Debt - Equity Ratio (Times)	2.46	2.83	3.63
Interest Coverage Ratio (Times)	1.66	1.45	1.25
Tangible Net Worth (` Crores)	8.87	8.95	9.04
Profitability Margin (%)	0.01%	0.06%	0.06%
Net Cash Accruals to total Debt (%)	0.04	0.04	0.03
ROCE (%)	7.53%	7.41%	9.98%
Current Ratio (Times)	1.36	1.63	1.55