May 31, 2022

A & L Apparels Pvt Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	3.23	3.23	[ICRA]BB+(Stable); reaffirmed
Pre-Shipment Credit	9.50	9.50	[ICRA]A4+; reaffirmed
Post-Shipment Credit	(5.00)	(5.00)	[ICRA]A4+; reaffirmed
Bank Guarantee	0.10	0.10	[ICRA]A4+; reaffirmed
Unallocated	7.17	7.17	[ICRA]BB+(Stable)/ [ICRA]A4+; reaffirmed
Total	**20.00**	**20.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings continues to favourably factor in the extensive experience of A & L Apparels Pvt. Ltd.'s (ALAPL) promoters in the textile industry, as a part of an established group (Shree Venkateshwar Group of companies) involved in textile and other related businesses. Additionally, its long-standing association with global fashion houses has resulted in repeat orders. The ratings continue to factor in ALAPL's growing presence in the export of high-fashion garments and accessories to leading luxury fashion houses, along with its focus on higher yield hand-embroidered knit and woven garments, which strengthens the company's operating profile.

The ratings are, however, constrained by ALAPL's modest scale of operations and profitability in FY2021. Further, it has limited bargaining power with established fashion houses and faces intense competition from other players in the Indian market. This continues to pressurise its realisations and profitability margins. Further, the ratings remain constrained by the susceptibility of ALAPL's profitability to the adverse movements in foreign exchange fluctuations to the extent of transactions not covered by forward contracts.

While reaffirming the ratings, ICRA has taken note of the long overdue receivables leading to high working capital intensity of operations as indicated by the NWC/OI of 80% in FY2021, which increased from 65% in FY2020. While there has been some recovery in the current fiscal, timely recovery, going forward, would be a key credit monitorable for the company.

The Stable outlook reflects ICRA's opinion that ALAPL will continue to benefit from the extensive experience of its promoters, which has enabled it to establish a reputed customer base over the years.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters with established track record in textile industry – The key promoters, Mr. Anuj Ganeriwal and Mr. Ankit Ganeriwal, with the extensive knowledge and experience in the textile industry, have established relationships with various well-renowned luxury fashion houses. ALAPL derives considerable benefits as a Shree Venkateshwar Group company. The Group comprises various entities in the textile business providing operational synergies. Over the years, the company has undertaken technological upgradation in its manufacturing facility to comply with international standards that enhances credibility.

Healthy operating margins due to detailed customisation and value addition in manufacturing of garments and accessories – ALAPL deals in high value-added luxury fashion items including apparel and accessories. The products offered are customised in accordance with customer requirements, which yield higher margins as evident from the operating margin of 20.9% in FY2020. However, the same declined to 11.4% in FY2021, following the pandemic-induced business disruptions.

Reputed customer profile with track record of repeat orders – ALAPL caters to luxury fashion houses such as Dolce and Gabbana, Prada, Pierre Balmain, Versace, Valentino and various others. Over the years, the company has established its name in the international market and has evidenced an increase in volumes through repeat orders from existing and new clients.

Credit challenges

High customer concentration with top-two customers accounting for ~80% of total sales in FY2021 – Over the last three years, ALAPL has increased its focus on niche fashion houses such as D&G, Prada, Pierre Balmain S.A., etc, which cater to various celebrities and high net-worth individuals. Although the customers are reputed and niche, ALAPL faces stiff concentration risk with the top-five customers accounting for more than 90% of its revenues in FY2021. Moreover, its scale of operations continues to be modest with an operating income (OI) of Rs. 22.25 crore in FY2021, which declined from Rs. 36.64 crore in FY2020, due to the pandemic. However, in FY2022, the operating income has increased to Rs. 41 crore (Provisional) owing to the increase in demand and recovery of businesses, as fashion shows are being conducted across the globe.

High working capital intensity of operations emanating from long overdue receivables – Being a fashion house, the company operates within tight timelines and faces tremendous pressure during international fashion festivals. ALAPL usually receives payments from customers within 60-90 days. However, the orders are usually skewed towards the last quarter due to international fashion week festival in the first quarter of the financial year, resulting in high debtors outstanding. Moreover, payments from one of the premium customer of ~Rs. 9.5 crore remained overdue for over six months, which resulted in an elevated debtors' position at 209 days in FY2021 from 194 days in FY2020. The long overdue receivables led to high working capital intensity of operations as indicated by the NWC/OI of 80% in FY2021, which increased from 65% in FY2020. However, the company has been receiving part payments from the customer.

Vulnerability to foreign exchange risk for its unhedged receivables – ALAPL is a net exporter rendering the export receivables to any adverse forex movements. About 80% of its exports are denominated in Euro terms, while 20% are in US dollar terms. As the company does not hedge 100% of its receivables, it remains exposed to foreign exchange fluctuation risks.

Limited bargaining power and intense competition limits pricing flexibility amid volatile input costs – As ALAPL operates in the luxury fashion industry, it faces strong competition from several organised and unorganised players in India, which exerts pricing pressures. As a result, its ability to strengthen its presence in the international market remains critical for its long-term growth. Further, amid the intense competition in the industry, the ability to control cost and effectively manage its raw material prices and forex fluctuation risks, will be a key monitorable from the profitability perspective.

Liquidity position: Adequate

The company has no long-term debt repayment obligations, and its net cash accruals are sufficient to meet the internal funding requirements. Its fund flow from operations (FFO) in FY2021 declined due to lower profitability in FY2021. Further, despite a sizeable amount being overdue with one of the customers, ALAPL managed its working capital needs effectively, with unutilised limits of Rs. 4.85 crore as on March 31, 2021. The capital expenditure incurred from FY2020 to FY2022 were funded entirely through internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade ALAPL's rating if the company demonstrates a significant improvement in its scale of operations and profitability coupled with diversification of customer base and improvement in liquidity position on a sustained basis.

Negative factors – The ratings may be downgraded if there is a decline in the scale of operations, which significantly impacts the company's profitability, or if any further elongation in the working capital cycle affects ALAPL's liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Entities in the Indian Textile Industry -Apparels
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

A & L Apparels Pvt. Ltd. ("ALAPL" or "the company") was incorporated in 2008 as an embroidery fashion house. The company is promoted by Mr. Anuj Ganeriwal and Mr. Ankit Ganeriwal who have an extensive experience in the textile industry. The company designs and manufactures hand embroidery, apparels, etc., for niche fashion houses like Dolce and Gabbana, Prada, Pierre Balmain, Elie Saab and various others. The company's workshop and office are in Andheri, Mumbai spread over an area of 17,000 sq. ft.

The company has expanded its capacity at its premise by 5,000 sq.ft. by incurring a capex of Rs. 6.5 crore (incurred from FY2020 to FY2022) funded entirely through internal accruals, which is expected to be operational in FY2023. As per the management, this is expected to result in operational synergies for the company.

Key financial indicators

ALAPL Standalone	FY2020 (Audited)	FY2021 (Audited)
Operating Income (Rs. crore)	36.6	22.2
PAT (Rs. crore)	2.3	-3.4
OPBDIT/OI (%)	20.9%	11.4%
PAT/OI (%)	6.2%	-15.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.86
Total Debt/OPBDIT (times)	3.0	6.2
Interest Coverage (times)	4.3	2.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					May 31,2022	Feb 26, 2021	Nov 26, 2019	Jul 27, 2018
1	Term loan	Long Term	3.23	-	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)
2	Pre Shipment Credit	Short Term	9.50	9.42	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
3	Post Shipment Credit	Short Term	(5.00)		[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
4	Bank Guarantee	Short Term	0.10		[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
5	Unallocated	Long Term/Short Term	7.17		[ICRA]BB+(Stable)/ [ICRA]A4+	[ICRA]BB+(Stable)/ [ICRA]A4+	[ICRA]BB+(Stable)/ [ICRA]A4+	[ICRA]BB+(Stable)/ [ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Pre-Shipment Credit	Very Simple
Post-Shipment Credit	Very Simple
Bank Guarantee	Very Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	-	-	-	3.23	[ICRA]BB+(Stable)
NA	Pre Shipment Credit	-	NA	--	9.50	[ICRA]A4+
NA	Post Shipment Credit	-	NA	--	(5.00)	[ICRA]A4+
NA	Bank Guarantee				0.10	[ICRA]A4+
NA	Unallocated				7.17	[ICRA]BB+(Stable)/ [ICRA]A4+

Annexure-2: List of entities considered for consolidated analysis- Not applicable

ANALYST CONTACTS

Jayanta Roy
+91-33-7150-1120
jayanta@icraindia.com

Kaushik Das
+91-33-7150-1140
kaushikd@icraindia.com

Vipin Jindal
+91-124-454-5355
vipin.jindal@icraindia.com

Prakhar Dakh
+91-22-6169-3345
prakhar.dakh@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

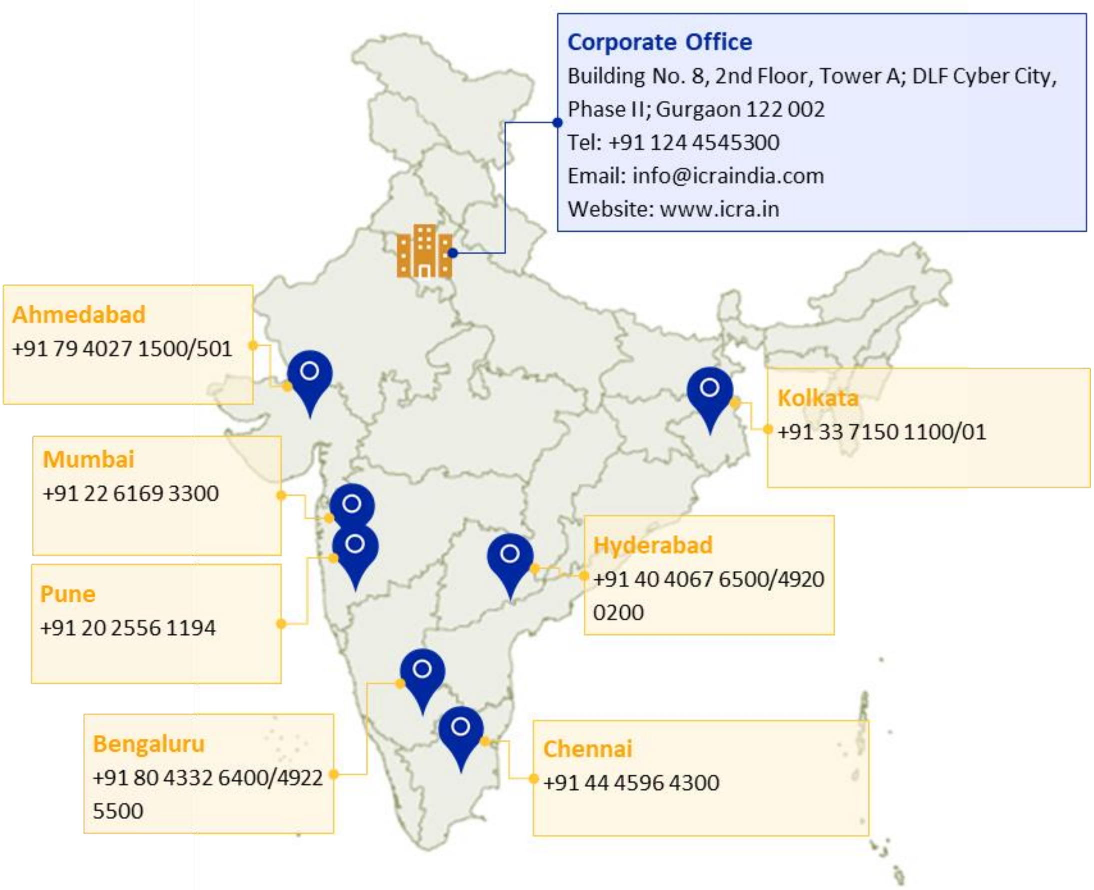
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.