

February 09, 2021

Popees Baby Care Products Pvt Ltd: Ratings downgraded to [ICRA]BB (Stable)/[ICRA]A4 and removed from Issuer Not Cooperating

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Working Capital facility	9.75	9.75	[ICRA]BB (Stable); downgraded from [ICRA]BB+ (Stable) and removed from Issuer Not Cooperating
Long-term Fund-based Term Loan	6.56	5.50	[ICRA]BB (Stable); downgraded from [ICRA]BB+ (Stable) and removed from Issuer Not Cooperating
Long-term Unallocated	1.29	0.00	-
Short-term Non-fund based facilities	(3.00)	2.35	[ICRA]A4; downgraded from [ICRA]A4+ and removed from Issuer Not Cooperating
Total	17.60	17.60	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Popees Baby Care Products Pvt Ltd (Popees), along with its associate concerns, Aibel Apparals and Shre International, since they operate in the same line of business, have operational linkages and share common promoters and management. All three concerns together are referred to as the Group.

The downgrade in ratings factors in the Group's financial profile, characterised by elevated borrowing levels and stretched liquidity position, with high utilisation of working capital limits on account of the stretch in working capital cycle due to elongation in inventory holding days in FY2020. The ratings also consider the deterioration in the Group's capital structure and coverage indicators—the interest coverage and DSCR declined to 2.1 times and 1.2 times in FY2020, respectively. The Group availed sizeable guaranteed emergency credit line (GECL) loans to manage the impact of the Covid-19 pandemic, which is expected to have an adverse impact on the capital structure and the coverage indicators in the near term. ICRA also notes that the Group's operating income (OI) is expected to decline because of the pandemic-induced lockdown.

However, the ratings continue to positively factor in Popees' steady growth in scale of operations, with the OI witnessing a CAGR of 33.9% in the last five-year period, supported by healthy market demand for Popees' products. The ratings also consider the established market position and the strong brand presence of the Popees Group, especially in the Kerala region. The ratings continue to draw comfort from the decade-long experience of the management in the domestic apparel industry, which has resulted in an established customer base and an extensive distributor network.

The Stable outlook reflects ICRA's expectation that the Group will benefit from its established market position and its strong brand presence, supported by the extensive experience of its promoters in manufacturing kids and baby apparels.

Key rating drivers and their description

Credit strengths

Extensive experience and operational track record of the company – The company has experience of over a decade, having started its operations in 2005, in the apparel manufacturing business. Its operational benefit primarily comes from the long

experience of the key management personnel, coupled with the established relationship with the customers and a professional workforce to support its operations.

The operational profile and brand profile of the entity has enabled it to establish a strong customer base of over 6500 retailers and a strong distributor network. ICRA also notes the eight exclusive brand outlets (EBOs) and 19 franchisee-based outlets (FBOs) setup in later parts of FY2020 and in FY2021, which are expected to aid the growth in sales volumes in the near term.

Healthy growth in scale of operations – Popees’ OI witnessed a modest 3% YoY growth in FY2020 to Rs. 76.2 crore (as per provisional financials) from Rs. 74.1 crore in FY2019 because of the adverse market conditions in the textile industry. However, Popees’ scale of operations has been growing, with Popees’ OI registering a healthy CAGR of 33.9% in the last five-year period (FY2016 – FY2020), supported by the healthy market demand for its products. The growth in OI has also been supported by the expansion in the Group’s product offerings into baby care products such as baby soaps, baby shampoo and baby wipes. These baby care products are manufactured through contract manufacturing and are marketed under the ‘Popees’ brand.

Despite the healthy growth in OI in the recent past, ICRA notes that the scale of operations remains moderate. Moreover, the OI is likely to decline in FY2021 because of the lingering effects of the pandemic. Nevertheless, ICRA expects healthy growth in OI, supported by the revival in demand for apparel products, in the medium term.

Credit challenges

Deterioration in capital structure and coverage metrics in FY2020 – The Group’s capital structure deteriorated in FY2020, with Total Debt/TNW increasing to 2.3 times (as per provisional financials) from 1.9 times in FY2019, because of higher debt needed to meet the entity’s working capital requirements. The Group’s coverage indicators also weakened because of higher debt levels, with interest coverage and DSCR declining to 2.1 and 1.2 times in FY2020 from 2.2 times and 1.3 times in FY2019 respectively.

ICRA also notes the additional guaranteed emergency credit line (GECL) loans of around Rs. 11 crore availed by the Group in FY2021 to manage the impact of the pandemic, which is expected to further impact the capital structure and coverage indicators in the near term.

Stretched liquidity position and high working capital intensity because of high inventory days – The Group’s liquidity position continues to be stretched because of the stretch in the Group’s working capital cycle. The average utilisation of the Group’s fund-based working capital facilities remained high at 95% of sanctioned limits from April 2020 to December 2020. The Group’s liquidity position is expected to remain stretched in the near term as the pandemic is likely to mute the cash flow from operations.

The Group’s working capital intensity witnessed an increase to 37.2% as on March 31, 2020 from 30.6% as on March 31, 2019 as the pandemic-induced lockdown elevated the inventory position in March 2020. While the OI is expected to decline in FY2021, inventory days are expected to remain elevated, resulting in a further increase in working capital intensity.

High geographical concentration risk and exposure to fluctuation in raw material prices – Popees’ revenue is majorly concentrated in South India, especially in Kerala, with the state contributing over 70% to the sales in FY2020 followed by Tamil Nadu (~17%) and Karnataka (~8%), resulting in high geographical concentration. Further, ICRA also notes that the Group’s profitability is exposed to fluctuation in raw material prices, namely yarn and fabric.

Liquidity position: Stretched

The Group’s liquidity continues to be **stretched**, characterised by high average utilisation of working capital facilities and modest cash balances. The average utilisation of the fund-based working capital limits was high, at 95% of the sanctioned limits, from April 2020 to December 2020, despite the Group availing GECL loans and using intermittent ad hoc limits.

Rating sensitivities

Positive factors – ICRA may upgrade the company's rating if it is able to improve its scale of operations and profitability, thereby improving its debt-coverage metrics. Specific credit metrics ICRA could monitor is interest coverage ratio improving to levels above 2.4 times on a sustained basis.

Negative factors – Pressure on the ratings could arise if the company's capitalisation structure and debt protection metrics witness any significant deterioration and working capital intensity witnesses further increase. Specific metrics ICRA could monitor is DSCR declining to levels below 1.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Textiles Industry - Apparels Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of Popees Baby Care Products Pvt Ltd, Shre International and Aibel Apparels.

About the company

Established as a proprietorship concern in 2005, Popees Baby Care Products was converted into a private limited company in September 2017. The company manufactures readymade garments mainly catering to new-born babies and children under six years, which are marketed under its own brand, Popees. The company's manufacturing facility is at Thiruvalli in Malapuram district of Kerala and it has recently added a manufacturing facility in Bangalore. At present, Popees operates eight exclusive brand outlets in Kerala and Bangalore. The company is promoted by Mr. Shaju Thomas and his wife Mrs. Lintu P Jose, who have extensive experience in the apparel manufacturing industry.

The Popees Group consists of several entities operating in the textile and garment manufacturing industry. Other entities under the Popees Group include M/s Aibel Apparels, a proprietorship business run by Mrs. Linta P Jose and M/s Shre International, a partnership firm of Mr. Shaju Thomas and Mrs. Linta P Jose, all involved in related businesses.

Key financial indicators (Consolidated)

Group - Consolidated	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Prov)*
Operating Income (Rs. crore)	71.5	109.2	138.9
PAT (Rs. crore)	1.3	1.9	2.0
OPBDIT/OI (%)	7.4%	7.7%	7.6%
PAT/OI (%)	1.8%	1.7%	1.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	2.8	3.0
Total Debt/OPBDIT (times)	5.6	4.6	5.0
Interest Coverage (times)	2.1	2.2	2.1

Source: Company Data, ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

* - FY2020 figures especially Operating Income might vary once the audited numbers for inter-party transactions are finalized.

Key financial indicators (Standalone)

Popees - Standalone	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Prov)
Operating Income (Rs. crore)	33.0	74.1	76.2
PAT (Rs. crore)	0.6	1.3	1.6
OPBDIT/OI (%)	7.9%	6.8%	8.6%
PAT/OI (%)	1.7%	1.7%	2.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	2.1	2.4
Total Debt/OPBDIT (times)	7.0	3.8	4.5
Interest Coverage (times)	2.1	2.3	2.4

Source: Company Data; 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 (FY2021)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2020 (Rs. crore)	Date & Rating in		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 09, 2021	Sep 30, 2020			
1	Fund based - working capital facility	Long-term	9.75*	15.06	[ICRA]BB (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	-	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)
2	Term Loans	Long-term	5.50	5.43	[ICRA]BB (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	-	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)
3	Unallocated	Long-term	-	-	-	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	-	[ICRA]BB+ (Stable)	-
4	Non-fund based	Short-term	2.35*	1.73	[ICRA]A4	[ICRA]A4+ ISSUER NOT COOPERATING	-	[ICRA]A4+	[ICRA]A4+

Amount in Rs. crore; * - part limits rated

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	Working capital facility	NA	NA	NA	9.75	[ICRA]BB (Stable)
NA	Term Loan	NA	NA	FY2026	5.50	[ICRA]BB (Stable)
NA	Non fund based facility	NA	NA	NA	2.35	[ICRA]A4

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Popees Ownership	Consolidation Approach
Popees Baby Care Products Pvt Ltd	100.00% (rated entity)	Full Consolidation
Shre International	-	Full Consolidation
Aibel Apparals	-	Full Consolidation

Source: Annual Reports of Popees, Shre International and Aibel Apparals

Note: ICRA has taken a consolidated view of the rated entity (Popees) and associates while assigning the ratings.

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