

March 20, 2023

## Acme Safetywears Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	16.00	16.00	[ICRA]BB (Stable), reaffirmed
Long-term Fund-based – Pre-shipment/ Post-shipment Credit Facilities#	(18.00)	(18.00)	[ICRA]BB (Stable), reaffirmed
Short-term Non-Fund-based – Letter of Credit/ Bank Guarantee	3.00	3.00	[ICRA]A4, reaffirmed
Long-term/ Short-term – Unallocated Limits	0.78	0.78	[ICRA]BB (Stable)/ [ICRA]A4, reaffirmed
<b>Total</b>	<b>19.78</b>	<b>19.78</b>	

\*Instrument details are provided in Annexure-I

# Sub-limit of the cash credit limit

### Rationale

The reaffirmation of the ratings considers the established track record of operations of Acme Safetywears Limited (ASL) and the extensive experience of the promoters in the safetywear industry, which strengthen its operational profile. The ratings continue to derive comfort from the moderate level of profitability and return indicators and ASL's established and reputed client base, which keeps the counterparty risk low. ICRA notes that repeat orders from reputed customers reflect the acceptable quality of products manufactured as well as traded by the company.

The ratings, however, continue to remain constrained by the company's modest scale of operations despite a substantial top line growth witnessed in FY2022. The ratings also consider the stiff competition in the fragmented industry, which restricts pricing flexibility and exerts pressure on the margins. The ratings are further impacted by the company's relatively lower net worth and the high working capital intensity of operations on the back of considerable receivables and inventory holding, which exerts pressure on its liquidity.

The Stable outlook on the long-term rating reflects ICRA's opinion that ASL will continue to benefit from its established track record of operations in the industrial safety products industry and maintain its business position while sustaining its profitability level in the long run.

### Key rating drivers and their description

#### Credit strengths

**Long experience of promoters and established track record of operations in the safetywear industry** – ASL has been in operations since 1995 and has an established track record of operations with demonstrated capabilities in the safetywear manufacturing and trading business. The promoters have over two decades of experience in the business through ASL and other Group entities, which strengthen its operational profile.

**Reputed and established customer base reduces counterparty risk** – ASL's reputed clientele, which includes Renault Nissan Automotive (India) Pvt. Ltd., Hyundai MIL Group and L&T Ltd. among others, keeps the counterparty risk low. Repeat orders from reputed customers reflect its acceptable product quality. Increasing safety awareness leads to favourable growth prospects for the industrial safety products both in the domestic and international markets.

**Moderate level of profitability and return indicators** – The operating profit margin (OPM) of ASL remained in the range of 7-9% over the past few years. The net profit margin was impacted by high depreciation and finance costs and stood at 3.1% in FY2021. The RoCE of the company also stood at a moderate level of around 13% in FY2022. ICRA expects the OPM of the company to remain at around 8% in the near-to-medium term. Nevertheless, the overall profits and cash accruals from the business have witnessed a steady growth primarily on the back of increasing scale of operations, which is likely to continue in the near-to-medium term.

### Credit challenges

**Modest scale of current operations** – Historically, the company's scale of operations has remained at a modest level. Increasing share of revenues from trading activities led to a steady rise in the scale of operations over the past few years, except in FY2021 owing to the pandemic. While revenue from manufacturing operations witnessed a growth of around 5% in FY2022, the same from trading activities witnessed a sharp rise by around 20% on a YoY basis. The company has reported a turnover of around Rs. 41 crore in H1 FY2023 compared to around Rs. 33 crore in H1 FY2022. ICRA expects that the overall top line of the company to grow by around 7% in FY2023.

**Intense competition in the industry keeps margins under check** – Intense competition from organised and unorganised players in the safetywear market on account of the low value-accretive nature of products and limited bargaining power against large customers limit pricing flexibility, exerting pressure on the margins.

**Relatively lower net worth** – The net worth of the company stood at a relatively lower level of around Rs. 18 crore as on March 31, 2022. The capital structure of the company continues to remain leveraged with a gearing of 1.3 times as on March 31, 2022. The coverage indicators of the company remained at a moderate level over the past years. In the absence of any planned debt-funded capital expenditure plan, ICRA expects a gradual improvement in the capital structure and coverage indicators, going ahead.

**High working capital intensity of operations, exerting pressure on liquidity** – Significant receivables and stocking requirements keep the company's working capital intensity of operations at a high level, as reflected by the net working capital relative to the operating income of 45% in FY2022, which in turn exert pressure on its liquidity position. ASL's working capital intensity of operations is likely to remain high, going forward.

### Liquidity position: Stretched

The company generated nominal cash flow from operations in the last year on the back of a marginal decline in the working capital intensity of operations. The overall fund-based working capital utilisation of the company stood at around 80% in the last 12 months, ended in January 2023. ICRA expects the liquidity position of the company to remain stretched in view of low cash flow from operations, scheduled long-term debt repayment obligations along with normal capital expenditure to be undertaken. As the company's business is expected to record a modest growth in the medium term, efficient management of working capital requirement would remain crucial, going forward.

### Rating sensitivities

**Positive factors** – ICRA may upgrade the ratings if the company is able to increase its revenue and profitability while improving its liquidity position and net worth on a sustained basis.

**Negative factors** – Pressure on ASL's ratings could arise if there is a significant decline in the turnover and profitability. Any major debt-funded capital expenditure and/or any deterioration in the working capital cycle, which could adversely impact the company's liquidity position, may also result in ratings downgrade. Specific credit metric that may trigger ratings downgrade include an interest coverage of less than 2.0 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

## About the company

ASL was founded in 1995 as a closely-held public limited company in the name of Acknit Fibres Limited, which was renamed in 2003. The company started its operations with manufacturing of hand gloves for industrial use. The company has diversified its product range over the years by manufacturing protective industrial garments and safety shoes. At present, the company manufactures cotton/ synthetic/ dotted gloves and industrial garments at its plants located at the Falta Industrial Growth Centre in West Bengal and in Chennai, Tamil Nadu. ASL manufactures safety shoes at its unit located in Kanpur, Uttar Pradesh. The company also trades in other industrial safety items like coated/ knitted gloves, garments, helmets, belts etc.

## Key financial indicators

ASL, Standalone	FY2021 (Audited)	FY2022 (Audited)	H1 FY2023 (Provisional)	H1 FY2022 (Provisional)
Operating income	63.6	72.8	41.2	32.6
PAT	1.9	2.2	1.2	1.0
OPBDIT/OI	8.2%	8.4%	7.5%	8.6%
PAT/OI	3.0%	3.1%	3.0%	3.1%
Total outside liabilities/Tangible net worth (times)	1.8	1.6	-	-
Total debt/OPBDIT (times)	4.5	3.9	-	-
Interest coverage (times)	2.6	2.8	3.2	3.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: Acme Safetywears Limited, ICRA Research

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
				Mar 20, 2023	Mar 3, 2022	Jan 6, 2021	Oct 29, 2020	Jul 2, 2019
1 Cash Credit	Long Term	16.00	15.55	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2 Term Loan	Long Term	-	-	-	-	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)
3 Pre-shipment/ Post-shipment Credit (PC/PCFC/FBD/FBP)^	Long Term	(6.00)	0.40	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
4 FCNRB Loan^	Long Term	(12.00)	Nil	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-
5 Letter of Credit	Short Term	2.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
6 Bank Guarantee	Short Term	1.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
7 Unallocated Limits	Long Term/ Short Term	0.78	NA	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Stable)/ [ICRA]A4	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term fund-based – Interchangeable	Simple
Short-term non-fund based – Letter of Credit/ Bank Guarantee	Very Simple
Unallocated Limits	Not applicable

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: [Click Here](#)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	16.00	[ICRA]BB (Stable)
NA	PC/ PCFC/ FBD/ FBP^	-	-	-	(6.00)	[ICRA]BB (Stable)
NA	FCNRB Loan^	-	-	-	(12.00)	[ICRA]BB (Stable)
NA	Letter of Credit	-	-	-	2.00	[ICRA]A4
NA	Bank Guarantee	-	-	-	1.00	[ICRA]A4
NA	Unallocated Limits	-	-	-	0.78	[ICRA]BB (Stable)/ [ICRA]A4

Source: Acme Safetywears Limited

^ Sub-limit of the cash credit limit

## Annexure II: List of entities considered for consolidated analysis

Not applicable

## ANALYST CONTACTS

**Mr. Jayanta Roy**  
+91 33 7150 1120  
[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

**Mr. Sujoy Saha**  
+91 33 7150 1184  
[sujoy.saha@icraindia.com](mailto:sujoy.saha@icraindia.com)

**Mr. Kaushik Das**  
+91 33 7150 1104  
[kaushikd@icraindia.com](mailto:kaushikd@icraindia.com)

**Mr. Sandipan Kumar Das**  
+91 33 7150 1190  
[sandipan.das@icraindia.com](mailto:sandipan.das@icraindia.com)

## RELATIONSHIP CONTACT

**Mr. Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)  
[info@icraindia.com](mailto: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](http://www.icra.in)

## ICRA Limited



### Registered Office

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



### Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

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](http://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.