March 20, 2023

Acknit Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Working Capital Facilities^	60.00	60.00	[ICRA]BBB (Stable), reaffirmed
Long-term Fund-based – Term Loan	6.86	-	-
Long-term Non-Fund-based – Bank Guarantee	1.30	-	-
Short-term Non-Fund-based – Letter of Credit/ Forward Contract	6.02	6.02	[ICRA]A3+, reaffirmed
Long-term/ Short-term Non-Fund-based – Bank Guarantee	-	1.30	[ICRA]BBB (Stable)/ [ICRA]A3+, reaffirmed
Long-term/ Short-term – Unallocated Limits	0.87	-	-
Total	**75.05**	**67.32**	

**Instrument details are provided in Annexure-I*

^ One way interchangeable of Rs. 5.00 crore from fund-based working capital to letter of credit

Rationale

The reaffirmation of the ratings considers the established track record of operations of Acknit Industries Limited (AIL) and the extensive experience of the promoters in the safetywear industry, which strengthen its operational profile. The ratings continue to favourably factor in the company's long relationship with its clients, generating repeat orders and reflecting its acceptable product quality. The ratings also consider AIL's diverse and flexible product mix, which provides them with competitive advantage, and its fairly diversified geographical presence. Although the export market currently remains sluggish due to the global economic slowdown, the long-term growth prospects for the industrial safety products would continue to remain favourable both in the domestic and international markets on the back of increasing safety awareness and stringent safety norms. The ratings also derive comfort from the favourable financial risk profile of the company, as reflected by a conservative capital structure and comfortable level of coverage indicators.

The ratings are, however, constrained by the intense competition in the industry and AIL's low bargaining power with its established clients, which limits its pricing flexibility and exerts pressure on the margins. The ratings are also impacted by the high working capital intensity of operations on the back of high receivables and inventory holding, which exerts pressure on its liquidity. Further, the ratings factor in the vulnerability of the company's profitability to fluctuations in the foreign currency exchange rates, although the same is mitigated by the natural hedge on account of import of a portion of its raw materials and formal hedging mechanisms adopted by the company. ICRA notes the sensitivity of revenues and profitability of the players, including AIL, in the export-oriented business, to the regulatory risks such as changes in the duty structure, rate of export incentives etc.

The Stable outlook on the long-term rating reflects ICRA's opinion that AIL 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 favourable financial profile 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 – AIL has been manufacturing industrial gloves since 1990. The company also manufactures industrial and readymade garments. AIL has been manufacturing industrial safety shoes since FY2021. The products are sold both in the domestic and international markets, with exports comprising around 72% of the revenues in FY2022. The company's established track record of operations and vast experience of the promoter strengthen its operational profile.

Diverse and flexible product mix lead to competitive advantages – AIL has a reputed and established client base across industries, which generates repeat orders, highlighting the acceptable product quality and reducing the counterparty risk. The client concentration has remained moderate and the top 10 clients accounted for around 63% of the company's revenue in FY2022. Further, the company has a diversified product portfolio consisting of leather gloves, cotton and synthetic gloves, coated gloves, industrial safety garments, apparels, industrial safety shoes, helmets, which are used for multiple purposes. The company's diverse range of products, along with presence in the readymade garments, provide a cushion against adverse market conditions in any particular segment.

Diversified geographical presence – AIL's geographical presence remains fairly diversified with sales made across the US, Europe, Middle East countries etc. However, the export revenues for AIL remained geographically concentrated as around 50% of the total sales in FY2022 was derived from Germany and the US.

Favourable financial risk profile, as reflected by a conservative capital structure and comfortable level of coverage indicators – The capital structure of the company gradually improved over the past years owing to a decline in the overall debt level along with modest accretion to reserves. Nevertheless, the same witnessed a marginal deterioration in FY2022, on the back of increased working capital borrowings to support its top line growth. The gearing and TOL/TNW stood at 1.0 times and 1.4 times as on March 31, 2022 and the coverage indicators have also witnessed an improvement over the past few years. ICRA notes that the overall debt level of the company is likely to decline in the current fiscal primarily on the back of prepayment of long-term debt. ICRA does not expect any major deterioration in the coverage indicators of the company in the near term, supported by moderate debt level along with profits and cash accruals from the business.

Credit challenges

Intense competition exerts pressure on margins – Intense competition from organised and unorganised players in the international safety wear market on account of the low value-accretive nature of products and limited bargaining power against large overseas clientele limit pricing flexibility. This keeps margins under pressure despite export incentives received from the Government of India (GoI). The OPM of the company remained in the range of 5-7% over the past few years. However, sizeable non-operating income in the form of forex gain supported its net profit margin (NPM). The company reported an OPM of 6.7% in 9M FY2023 against 5.2% in 9M FY2022. The overall profits and cash accruals from the business are estimated to improve in FY2023 compared to the previous year in view of an increase in its scale of operations.

Exposed to foreign exchange rate fluctuation and regulatory risks – AIL generates a significant portion (72% in FY2022) of its revenue from export sales, which exposes it to the foreign exchange rate fluctuation risk. However, the same is mitigated by the natural hedge on account of import of a portion of its raw materials and formal hedging mechanisms adopted by the company. This mitigates the foreign exchange rate fluctuation risk to a large extent. Moreover, as an exporter, AIL enjoys export incentives and interest subvention under various schemes run by the GoI. Accordingly, revenues and profitability of the players, including AIL, in the export-oriented business remain susceptible to the regulatory risks such as changes in the duty structure, rate of export incentives etc.

High working capital intensity of operations exerts pressure on liquidity – Significant receivables and stocking requirement kept 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 41% (39% in FY2021) in FY2022. However, the same is estimated to decline in the current fiscal, primarily on the back of reduced inventory level and faster realisation from the customers. Nevertheless, AIL's working capital intensity of operations is likely to remain high, going forward.

Liquidity position: Adequate

Increase in the working capital intensity of operations along with a significant rise in the scale of operations led to a negative cash flow from operations in FY2022. However, reduced working capital requirement is likely to lead to a positive cash flow from operations during the current fiscal. The company has also demonstrated need-based funding in the form of unsecured loan from the directors and body corporate. The overall fund-based working capital utilisation of the company stood at around 68% during the last 15 months, ended in January 2023. In view of adequate cash flows from operations, limited capital expenditure plan compared to its current balance sheet size and undrawn working capital limits, ICRA expects the overall liquidity position of the company to remain adequate, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is a significant increase in the revenue and profitability of the company on a sustained basis. Specific credit metric that may trigger a rating upgrade include total debt relative to OPBDIT of less than 2.7 times on a sustained basis.

Negative factors – ICRA may downgrade the ratings in case of any major debt-funded capital expenditure, a deterioration in the working capital cycle and/ or a decline in the margins, which could adversely impact the company's liquidity position. Specific credit metric that may trigger ratings downgrade includes an interest coverage of less than 3.0 times on a sustained basis.

Analytical approach

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

About the company

AIL was founded in 1990 as a private limited company for manufacturing seamless knitted hand gloves for industrial use. The entity was converted into a limited concern under the name, Acknit Knitting Limited, in 1994, and it entered the capital market in 1995. The company's name was changed to Acknit Industries Limited in 2007. The company gradually diversified its product range to include leather/ cotton/ synthetic, coated and dotted industrial gloves, as well as industrial safety garments and children's garments, safety shoes and helmets. The manufacturing facilities of the company are located in West Bengal. Additionally, the company operates a windmill (1.25 MW) in Dhule, Maharashtra.

Key financial indicators

ASL, Standalone	FY2021 (Audited)	FY2022 (Audited)	9M FY2023 (Unaudited)	9M FY2022 (Unaudited)
Operating income	168.5	210.7	184.1	148.7
Adjusted Operating Income#	171.8	215.7	185.5	152.5
PAT	5.8	7.9	6.8	5.6
OPBDIT/OI	6.2%	5.1%	6.7%	5.2%
Adjusted OPBDIT/OI#	8.0%	7.3%	7.4%	7.6%
PAT/OI	3.5%	3.8%	3.7%	3.8%
Adjusted PAT/OI#	3.4%	3.7%	3.6%	3.7%
Total outside liabilities/Tangible net worth (times)	1.2	1.4	-	-
Total debt/OPBDIT (times)	4.3	5.7	-	-
Adjusted Total debt/OPBDIT (times)#	3.3	3.9	-	-
Interest coverage (times)	3.0	3.7	5.6	4.2
Adjusted Interest coverage (times)#	4.0	5.4	6.2	6.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore
Source: Acknit Industries Limited, ICRA Research
 # The non-operating income/(expenses) due to foreign exchange gain/(loss) have been considered in the operating income

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 for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 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	Mar 4, 2021	Feb 6, 2020
1	Working Capital^	Long Term	60.00	50.09	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Term Loan	Long Term	-	-	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Bank Guarantee	Long Term	-		-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
4	Letter of Credit	Short Term	4.50	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A3
5	Forward Contract	Short Term	1.52	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A3
6	Bank Guarantee	Long Term/ Short Term	1.30	-	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	-
7	Unallocated Limits	Long Term/ Short Term	-	NA	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working Capital	Simple
Short-term non-fund based – Letter of Credit/ Forward Contract	Very Simple

Long-term/ Short-term non-fund based – Bank Guarantee	Very Simple

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	CC/ WCL/ EPC/ PCFC/ FBD/ EBR^	-	-	-	45.00	[ICRA]BBB (Stable)
NA	CC/ PC/ PCFC/ FBP/ FBD/ FCBD/ FCNRB Loan	-	-	-	15.00	[ICRA]BBB (Stable)
NA	Letter of Credit 1	-	-	-	2.50	[ICRA]A3+
NA	Letter of Credit 2	-	-	-	2.00	[ICRA]A3+
NA	Forward Contract	-	-	-	1.52	[ICRA]A3+
NA	Bank Guarantee 1	-	-	-	0.90	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	Bank Guarantee 2				0.40	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: Acknit Industries Limited

^ One way interchangeable of Rs. 5.00 crore from fund-based working capital to letter of credit

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

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

Mr. Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Mr. Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Mr. Sandipan Kumar Das
+91 33 7150 1190
sandipan.das@icraindia.com

RELATIONSHIP CONTACT

Mr. 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