

March 28, 2024

## Acme Safetywears Limited: Ratings upgraded to [ICRA]BB+ (Stable)/ [ICRA]A4+

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Working Capital Facilities	16.00	16.00	[ICRA]BB+ (Stable), upgraded from [ICRA]BB (Stable)
Long-term Fund-based – Interchangeable (Working Capital Facilities#)	(18.00)	(24.00)	[ICRA]BB+ (Stable), upgraded from [ICRA]BB (Stable)
Short-term – Non-Fund based – Working Capital Facilities	3.00	3.00	[ICRA]A4+, upgraded from [ICRA]A4
Long-term/ Short-term – Unallocated Limits	0.78	0.78	[ICRA]BB+ (Stable)/ [ICRA]A4+, upgraded from [ICRA]BB (Stable)/ [ICRA]A4
<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 ratings upgrade of Acme Safetywears Limited (ASL) considers its consistent healthy performance, leading to a sustained improvement in the credit metrics. With regular accretion to reserves, the capital structure and liquidity of the company have also improved.

The ratings continue to factor in ASL's established track record of operations 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 the company'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 ASL.

The ratings, however, continue to remain constrained by the company's modest scale of operations despite a steady top line growth witnessed over the past two years. Besides, there is stiff competition in the fragmented industry, which restricts ASL's 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 exert 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 along with its conservative capital structure and an adequate liquidity position, which would continue to support its business and credit profiles.

### 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 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.

**Consistent healthy performance; improvement in the credit metrics** – The overall profits and cash accruals from the business have witnessed a steady growth, primarily on the back of increasing scale of operations, which are likely to continue in the near-to-medium term. With regular accretion to reserves, the capital structure and liquidity position of the company have also improved over the years. The coverage indicators have gradually improved over the past years and stood at a moderate level. In the absence of any planned debt-funded capital expenditure plan, ICRA expects a steady improvement in the capital structure and coverage indicators, going ahead.

**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 3.2% in FY2023. The RoCE of ASL also stood at a moderate level of around 14% in FY2023. ICRA expects the OPM of the company to remain at 7-8% 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 12% in FY2023, the same from trading activities witnessed a sharp rise by around 17% on a YoY basis. The company has reported a turnover of around Rs. 66 crore in 9M FY2024 compared to around Rs. 41 crore in H1 FY2023. ICRA expects ASL's overall top line to grow marginally by around 3% in FY2024.

**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. 21 crore as on March 31, 2023. However, reduced borrowing levels led to an improvement in the capital structure of ASL, with gearing and TOL/TNW of 0.9 times and 1.2 times, respectively as on March 31, 2023 over the previous fiscal.

**High working capital intensity of operations exerts pressure on liquidity** – Significant receivables and stocking requirements keep the company's working capital intensity of operations at a high level, exerting pressure on its liquidity position. Nevertheless, the NWC/OI of the company improved to 32% in 9M FY2024 from 36% in FY2023 and 45% in FY2022, primarily driven by a decline in the inventory holding. However, ICRA expects ASL's working capital intensity of operations to remain at an elevated level, going forward.

### Liquidity position: Adequate

The company generated positive cash flow from operations in FY2023 on the back of a decline in the working capital intensity of operations. ICRA expects the cash flow from operations to remain positive, going forward, as well. The overall fund-based working capital utilisation of the company stood at around 81% in the last 12 months, ended in February 2024. The company has limited scheduled long-term debt repayment obligations compared to its likely cash accruals from the business. In view of adequate cash flow from operations, undrawn working capital facilities and absence of any major capital expenditure programme, ICRA expects the liquidity position of the company to remain adequate, going forward. 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 2.5 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 usages. ASL 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 in 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 (audited)

ASL, Standalone	FY2022	FY2023	9M FY2024*	H1 FY2023*
Operating income	72.9	84.1	66.2	41.2
PAT	2.2	2.7	2.2	1.2
OPBDIT/OI	8.5%	7.5%	7.6%	7.5%
PAT/OI	3.1%	3.2%	3.4%	3.0%
Total outside liabilities/Tangible net worth (times)	1.6	1.2	1.0	-
Total debt/OPBDIT (times)	3.9	3.0	2.2	-
Interest coverage (times)	2.9	3.3	3.8	3.2

Source: Acme Safetywears Limited, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Mar 28, 2024	Mar 20, 2023	Mar 3, 2022	Jan 6, 2021	Oct 29, 2020
1 Fund-based – Working Capital Facilities	Long Term	16.00	11.68	[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 Fund-based – Interchangeable (PC/PCFC/FBD/FBP#)	Long Term	(12.00)	-	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
4 Fund-based – Interchangeable (FCNRB Loan#)	Long Term	(12.00)	-	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-
5 Non-fund based – Working Capital Facilities	Short Term	3.00	-	[ICRA]A4+	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
6 Unallocated Limits	Long Term/ Short Term	0.78	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Stable)/ [ICRA]A4	-

# Sub-limit of the cash credit limit

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working Capital Facilities	Simple
Long-term fund-based – Interchangeable	Simple
Short-term non-fund based – Working Capital Facilities	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 <sup>#</sup>				(6.00)	[ICRA]BB+ (Stable)
NA	FBD/ FBP <sup>#</sup>				(6.00)	[ICRA]BB+ (Stable)
NA	FCNRB Loan <sup>#</sup>				(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

<sup>#</sup> Sub-limit of the cash credit limit

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

Not applicable

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