

March 28, 2024

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
Short-term – Non-Fund based – Working Capital Facilities	6.02	6.02	[ICRA]A3+, reaffirmed
Long-term/ Short-term – Non-Fund based – Working Capital Facilities	1.30	1.30	[ICRA]BBB (Stable)/ [ICRA]A3+, reaffirmed
Total	67.32	67.32	

* Instrument details are provided in Annexure – I

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 advantages, along with its fairly diversified geographical presence. Although the export market remains sluggish at present 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 awareness and stringent safety norms. Favourable financial risk profile of AIL, as reflected by a conservative capital structure and comfortable debt protection metrics, provides further comfort.

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 company's profitability remains vulnerable 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 AIL. The top line of the company is likely to decline in the current fiscal, mainly driven by lower offtake on the back of sluggish demand from key export destinations. ICRA notes the sensitivity of revenues and profitability of the players, in the export-oriented business, including AIL, 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 and has been manufacturing industrial safety shoes since FY2021. The products are sold both in the domestic and international markets,

with exports comprising around 67% of the revenues in FY2023. 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 54% of the company's revenue in FY2023. Further, the company has a diversified product portfolio comprising leather gloves, cotton and synthetic gloves, coated gloves, industrial safety garments, apparels, industrial safety shoes and 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, and the Middle East countries. However, the export revenues for AIL remained geographically concentrated as around 49% of the total sales in FY2023 was derived from Germany and the US.

Favourable financial risk profile, characterised by a conservative capital structure and comfortable coverage metrics – 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. The gearing and TOL/TNW of AIL stood at 0.6 times and 0.9 times, respectively as on March 31, 2023. The coverage indicators have also witnessed a steady improvement over the past few years and remained at a comfortable level. ICRA does not expect any major deterioration in the capital structure and coverage metrics of the company in the near term, supported by moderate debt level along with profits and cash accruals from the business.

Credit challenges

Relatively smaller scale of current operations; top line likely to decline in the current fiscal – The operating income of the company remained almost stagnant during FY2017-FY2021. However, significant increase in sales volumes of leather gloves as well as garments, supported by improvement in realisation of other products, led to a sharp rise in the turnover of the company over the past two years to around Rs. 230 crore in FY2023 from around Rs. 163 crore in FY2021. In 9M FY2024, the company reported revenues of around Rs. 147 crore against around Rs. 178 crore in the similar period of the previous fiscal, owing to a drop in volume of sales of leather gloves and garments. ICRA expects the company's overall top line to decline by around 9% in FY2024 compared to FY2023, mainly on the back of reduced off-take of various products due to economic slowdown in the US and European countries.

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 operating profit margin (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 6.9% in 9M FY2024 against 6.7% in 9M FY2023. The overall profits and cash accruals from the business are estimated to fall in FY2024 compared to the previous year in view of a decline in its scale of operations.

Exposed to foreign exchange rate fluctuation and regulatory risks – AIL generates a significant portion (67% in FY2023) 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, thereby exerting pressure on its liquidity position. Nevertheless, the net working capital relative to the operating income of the company witnessed a sharp improvement to 32%

in FY2023 from 41% in FY2022, driven by reduced inventory level and faster realisation from the customers. However, ICRA expects AIL's working capital intensity of operations to remain at an elevated level, going forward.

Environmental and social risks

Environmental considerations: The environmental risks pertaining to manufacturing of the products remain the most significant sustainability risk for industrial safety products companies. From raw material sourcing to production process, water is a critical resource for making industrial safety products. Initiatives such as zero discharge of hazardous chemicals continue to drive innovations in product design and sustainable sourcing.

Environmental risks indirectly affect the industry, primarily through the impact of post-consumer waste. While these risks have not resulted in material implications so far, policy interventions towards tightening the standards on waste management, including the packaging waste, could have cost implications for AIL. The company follows sustainable manufacturing practices, complies with environmental regulations, and prioritises supply chain sustainability. It emphasises on product design, transparency and collaboration with stakeholders to enhance environmental performance, which are expected to mitigate the risks to an extent.

Social considerations: Being a labour-intensive segment, AIL remains exposed to the risks of disruptions due to inability to properly manage human capital in terms of their productivity and the overall well-being. Further, any significant increase in wage rate may adversely impact the cost structure of industrial safety products, adversely impacting the margins. Risks of protests/ conflicts with local communities and/ or shortage of skilled workers could also affect operations/ growth plan and remain key concerns.

Liquidity position: Adequate

A sharp decline in the working capital intensity of operations led to a positive cash flow from operations in FY2023. Although the cash flow from operations is expected to moderate substantially in FY2024 on a YoY basis due to increase in the working capital intensity of operations, it would still remain positive. 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 59% during the last 15 months, ended in February 2024, leaving adequate buffer. In view of adequate cash flow 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 ratings upgrade includes total debt relative to OPBDIT of less than 2.5 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 (audited)

AIL, Standalone	FY2022	FY2023	9M FY2024*	9M FY2023*
Operating income	210.7	236.7	151.3	184.2
Adjusted operating income [#]	215.7	238.5	152.2	185.5
PAT	7.9	9.1	5.5	6.8
OPBDIT/OI	5.1%	7.1%	6.9%	6.7%
Adjusted OPBDIT/OI [#]	7.3%	7.8%	7.5%	7.4%
PAT/OI	3.8%	3.8%	3.6%	3.7%
Adjusted PAT/OI [#]	3.7%	3.8%	3.6%	3.6%
Total outside liabilities/Tangible net worth (times)	1.4	0.9	-	-
Total debt/OPBDIT (times)	5.7	2.6	-	-
Adjusted total debt/OPBDIT (times) [#]	3.9	2.3	-	-
Interest coverage (times)	3.7	5.4	5.9	5.6
Adjusted interest coverage (times) [#]	5.4	6.0	6.4	6.2

Source: Acknit Industries Limited, ICRA Research; * Unaudited 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

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	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	Mar 4, 2021
Fund-based –							
1 Working Capital Facilities[#]	Long Term	60.00	34.93	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2 Term Loan	Long Term	-	-	-	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
3 Bank Guarantee	Long Term	-	-	-	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
Non-fund based –							
4 Working Capital Facilities	Short Term	6.02	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3

Non-fund based – 5 Working Capital Facilities	Long Term/ Short Term	1.30	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-
6 Unallocated Limits	Long Term/ Short Term	-	-	-	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3

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

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working Capital Facilities	Simple
Short-term non-fund based – Working Capital Facilities	Very Simple
Long-term/ Short-term non-fund based – Working Capital Facilities	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

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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.

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