

March 28, 2025

## Acknit Industries Limited: Ratings reaffirmed; rated amount enhanced

### 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	-	1.30	[ICRA]BBB (Stable), assigned
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
Long-term/ Short-term – Unallocated Limits	-	10.70	[ICRA]BBB (Stable)/ [ICRA]A3+, assigned
<b>Total</b>	<b>67.32</b>	<b>79.32</b>	

\*Instrument details are provided in Annexure I

### Rationale

The reaffirmation of the ratings favourably considers the financial risk profile of Acknit Industries Limited (AIL), as reflected by a conservative capital structure and comfortable debt protection metrics. The ratings also take into account the company'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 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. 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.

The ratings are, however, constrained by the intense competition in the industry and AIL's low bargaining power with its established clients, which limit its pricing flexibility and exert 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 increased substantially in FY2024, exerting 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. Despite a YoY decline in AIL's revenue in FY2024 on the back of sluggish demand from key export destinations, ICRA expects that the overall top line of the company is likely to witness a growth of 9-10% in FY2025 on a YoY basis, mainly driven by an increased off-take of leather gloves and garments. 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 62% of the revenues in FY2024. 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 an 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 65% of the company's revenue in FY2024. 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 segment, provide a cushion against adverse market conditions in any particular product category. The company is in the process of consolidating its garment division in Jhantala, West Bengal, which is likely to become operational in FY2027. Moreover, the management plans to set up a coated gloves manufacturing unit with an estimated capital cost of around Rs. 20 crore, proposed to be funded by a mix of debt and equity, in Falta, West Bengal over the next 2-3 years.

**Diversified geographical presence** – AIL's geographical presence remains fairly diversified with sales made across the US, Europe, and the Middle East countries, apart from domestic market, which accounted for around 38% of the company's turnover in FY2024. However, the export revenues for AIL remained geographically concentrated as around 42% of the total sales in FY2024 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 continued to remain conservative, despite an increase in the overall debt level, owing to a modest accretion to reserves. The gearing and TOL/TNW stood at 0.7 times and 1.0 times, respectively as on March 31, 2024. The coverage indicators have also remained at a comfortable level in FY2024. ICRA does not expect any major deterioration in the capital structure and coverage indicators of the company in the near term, supported by moderate debt level along with adequate profits and cash accruals from the business.

### Credit challenges

**Relatively smaller scale of current operations; top line likely to grow in the current fiscal** – The operating income of the company remained almost stagnant during FY2017-FY2021. However, significant increase in volume of sales of leather gloves as well as garments, supported by an improvement in the realisation of other products, led to a sharp rise in the turnover of the company in FY2022 and FY2023. The operating income of AIL again declined by around 8% to around Rs. 219 crore 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. In 9M FY2025, the company reported revenue of around Rs. 175 crore against around Rs. 152 crore recorded in the corresponding period in the previous fiscal, registering a growth of around 15% on a YoY basis, mainly driven by an increased sales of leather gloves. ICRA expects that the overall top line of the company is likely to grow by 9-10% in FY2025 compared to the previous fiscal, mainly on the back of increased off-take of leather gloves and garments.

**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 7.0% in 9M FY2025 against 7.5% in 9M FY2024. ICRA expects the company to report a net profit margin of more than 3.5% in FY2025. The overall profits and cash accruals from the business are estimated to rise in FY2025 compared to the previous year in view of a likely increase in its scale of operations.

**Exposed to foreign exchange rate fluctuation and regulatory risks** – AIL generates a significant portion (62% in FY2024) 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, exerting pressure on its liquidity position. The net working capital relative to the operating income of the company witnessed a sharp increase to 45% in FY2024 from 32% in FY2023, driven by a rise in the receivable position along with the enhanced inventory holding. AIL's working capital intensity of operations is likely 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 increase in the working capital intensity of operations led to a negative cash flow from operations in FY2024. Despite an increase in the scale of operations, ICRA expects the cash flow from operations in FY2025 to turn positive due to the likely marginal improvement in the working capital intensity of operations. The overall fund-based working capital utilisation of the company stood at around 76% during the last 12 months, ended in February 2024, leaving adequate buffer. AIL is expected to generate cash accruals of Rs. 12-14 crore in FY2025 and FY2026. The company has nominal long-term debt repayment obligations over the next two years. In view of adequate cash flow from operations, estimated capital expenditure of around Rs. 7 crore in FY2025, 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 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	<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

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 other readymade 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)

ALL, Standalone	FY2023	FY2024	9M FY2025*	9M FY2024*
Operating income	236.7	218.6	174.9	152.2
Adjusted operating income <sup>#</sup>	238.5	220.7		
PAT	9.1	8.6	5.8	5.5
OPBDIT/OI	7.1%	6.9%	7.0%	7.5%
Adjusted OPBDIT/OI <sup>#</sup>	7.8%	7.8%		
PAT/OI	3.8%	3.9%	3.3%	3.6%
Total outside liabilities/Tangible net worth (times)	0.9	1.0		
Total debt/OPBDIT (times)	2.6	3.9		
Adjusted total debt/OPBDIT (times) <sup>#</sup>	2.3	3.4		
Interest coverage (times)	5.4	5.6	6.2	6.4
Adjusted interest coverage (times) <sup>#</sup>	6.0	6.3		

Source: Acknit Industries Limited, ICRA Research; \* Unaudited results; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

<sup>#</sup> 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

Current rating (FY2025)				Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Mar 28, 2025	Date	Rating	Date	Rating	Date	Rating
<b>Fund-based – Working Capital Facilities<sup>#</sup></b>	Long term	60.00	<b>[ICRA]BBB (Stable)</b>	Mar 28, 2024	[ICRA]BBB (Stable)	Mar 20, 2023	[ICRA]BBB (Stable)	Mar 3, 2022	[ICRA]BBB (Stable)
<b>Term Loan</b>	Long term	1.30	<b>[ICRA]BBB (Stable)</b>	-	-	-	-	Mar 3, 2022	[ICRA]BBB (Stable)
<b>Bank Guarantee</b>	Long term	-	-	-	-	-	-	Mar 3, 2022	[ICRA]BBB (Stable)
<b>Non-fund based – Working Capital Facilities</b>	Short term	6.02	<b>[ICRA]A3+</b>	Mar 28, 2024	[ICRA]A3+	Mar 20, 2023	[ICRA]A3+	Mar 3, 2022	[ICRA]A3+
<b>Non-fund based – Working Capital Facilities</b>	Long term/ Short term	1.30	<b>[ICRA]BBB (Stable)/ [ICRA]A3+</b>	Mar 28, 2024	[ICRA]BBB (Stable)/ [ICRA]A3+	Mar 20, 2023	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-
<b>Unallocated limits</b>	Long term/ Short Term	10.70	<b>[ICRA]BBB (Stable)/ [ICRA]A3+</b>	-	-	-	-	Mar 3, 2022	[ICRA]BBB (Stable)/ [ICRA]A3+

<sup>#</sup> 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
<b>Long-term fund-based – Working Capital Facilities</b>	Simple
<b>Long-term fund-based – Term Loan</b>	Simple
<b>Short-term non-fund based – Working Capital Facilities</b>	Very Simple
<b>Long-term/ Short-term non-fund based – Working Capital Facilities</b>	Very Simple
<b>Unallocated Limits</b>	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](https://www.icra.in)

## 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#	-	-	-	60.00	[ICRA]BBB (Stable)
NA	Term Loan	FY2025	-	FY2030	1.30	[ICRA]BBB (Stable)
NA	Letter of Credit	-	-	-	4.50	[ICRA]A3+
NA	Forward Contract	-	-	-	1.52	[ICRA]A3+
NA	Bank Guarantee	-	-	-	1.30	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	Unallocated Limits	-	-	-	10.70	[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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