

November 07, 2019

Aurora Apparel Private Limited: Ratings reaffirmed

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term –Fund based, Term loan	3.13	4.38	[ICRA]BB(Stable); Reaffirmed
Short term – Fund based Limits	5.50	6.50	[ICRA]A4+; Reaffirmed
Short term – Non-Fund based Limits	1.50	1.50	[ICRA]A4+; Reaffirmed
Long term/Short Term– Unallocated Limits	4.49	2.24	[ICRA]BB(Stable)/[ICRA]A4+; Reaffirmed
Long term/Short term Interchangeable Limits	(3.00)	(4.00)	[ICRA]BB(Stable)/[ICRA]A4+; Reaffirmed
Total	14.62	14.62	

* Instrument details mentioned in Annexure-1

Rationale

The ratings reaffirmation takes into account the long operational track record of —Tessitura Monti India Private Limited (TMIPL), and Summer Conf, Romania, who are the holding companies of Aurora Apparel Private Limited (AAPL) and part of an established Italian based textile group of companies which renders operational and financial support in terms of ready access to global market, established clientele and infusion of unsecured loan for financial exigencies.

The ratings, however, continue to be constrained by the modest scale of operations with de-growth recorded in revenues in FY2019 owing to shrinking export sales resulting from the sluggish demand, particularly in the European and the USA markets. The ratings also remain constrained by the company's limited pricing flexibility due to stiff competition from neighboring countries like China and Bangladesh thereby limiting scope for margin expansion. Furthermore, ICRA also notes the moderation in the company's operating profitability on account of bad debts write off of few international clients alongwith decline in share of revenues from value added apparels. d. The ratings are also constrained by susceptibility of the company's profitability to adverse movement in foreign exchange fluctuations on the unhedged export receivables as only a part of the export receivables is hedged using forward contracts. Nonetheless, given the current scenario, the company is better placed in reaping benefits from rupee depreciation against Euro. Additionally, being a raw material intensive business the company's profitability is vulnerable to raw material (cotton fabric) price fluctuations and vulnerability to risks associated with minimum support price (MSP) and export policies. ICRA notes that the company is implementing a capex plan to increase its production capacity by ~25% in FY2020 to approximately 2000 pieces per day (currently 1600 pieces) to cater to increase in domestic demand. The extent to which the company will be able to scale up and generate adequate returns from the capex will critical from the credit perspective.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that AAPL will continue to benefit from the extensive experience of its promoters and funding and procurement support from its promoter companies.

Key rating drivers

Credit strengths

Extensive experience of the promoters in the textile industry - AAPL is an equal joint venture of TMIPL and Summer Conf, Romania. Both the companies have more than a decade of experience in the textile industry, which helps lend operational and marketing support to AAPL. Incorporated in 2002, TMIPL is a closely-held subsidiary of the Italy-based, GTM Group and is involved in the manufacturing of premium cotton shirt fabrics for the European markets while Incorporated in 1996, Summer Conf is into garment manufacturing.

Operational and marketing support from Group entities; extended credit period and timely infusion of unsecured Loans from Tessitura Monti-one of the promoter companies- TMIPL and Summer Conf being engaged in fabric and garment manufacturing respectively provides operational comfort to AAPL. The international presence of its promoter companies TMIPL and GTM, Italy has aided AAPL in acquiring international clients and derive considerable marketing support in the overseas markets. The company procures ~60-70% of cotton fabric, the key raw material used for manufacturing shirts from TMIPL at favourable credit terms. The promoter TMIPL has infused Rs. 2.0 crore of unsecured loan in the entity in FY2019 and is expected to lend further support with additional infusion of Rs. 1.0 crore unsecured loan in FY2020.

Geographically diversified revenue profile; alike presence in international and domestic markets with few international client acquisitions and increasing share of business from a large and reputed domestic client- European Union and United Arab Emirates form bulk of revenues while sales to UK and USA have witnessed a sharp decline in FY2019 and 5MFY2020. Nonetheless, the revenue loss from one of its key markets and few key customers was compensated by a higher revenue share from the domestic market (at ~45% in 5MFY2020) and onboarding of a new client in Australia.

Credit weaknesses

Revenue de-growth witnessed in FY2018-FY2019 due to the shrinking share of exports; decline in operating profitability in FY2019; scale of operations continues to remain modest -The company has witnessed a declining trend in sales realisation over the period under study owing to weak global demand especially from European countries and stiff competition from neighboring countries like China and Bangladesh. Further, the focus on mid-segment domestic market has also contributed to the pressures on sales realisation. Despite the declining sales realization, the operating income remained stagnant (modest decline of 1% in FY2019) due to volumetric growth. AAPL continues to remain a small-scale player in the textile industry. The operating margins have declined in FY2019 mainly on account of write off of bad debts from some of its international clients and also due to lower contribution margins as a result of increase in cotton fibre prices in FY2019.

Susceptibility to volatility in availability and price of cotton; vulnerability to risks related to export policies and foreign exchange fluctuations owing to large exports—Being a raw material intensive business, the company's profitability is vulnerable to price fluctuations in its key raw material; cotton fabric. Cotton being an agro-commodity is vulnerable to

volatility in availability, price of cotton and vulnerability to risks associated with MSP and export policies. Furthermore, AAPL is exposed to foreign exchange risk as much of its sales (~55% for 5MFY2020) are derived from the international market. The company avails a Packing credit foreign currency (PCFC) facility which provides a natural hedge to an extent. The company also enters into a forward contract to hedge part of its export receivables.

Susceptibility to the performance of domestic and international textile industry; high competitive pressures—The performance of the company is contingent upon the performance of domestic and international textile industry. Any changes in the demand prospects, fashion trends, customer preferences, government regulations, international trade and bilateral relations will have an impact on the sales volumes and realisations. Evidently the slowdown in key markets of Europe and USA has capped the company's export revenues while the domestic textile industry is highly fragmented and is characterized by intense competition among a large number of players (in the apparels as well as fabric segments), leading to limited pricing flexibility.

Liquidity Position: Stretched

AAPL's liquidity is stretched. It had total long-term debt of Rs. 4.01 crore (external term loans of Rs. 2.01 crore and unsecured loan of Rs. 2.0 crore) on its books as on March 31, 2019. Additionally, Rs. 2.25 crore of long-term loan is expected to be added in FY2020 (term loan of Rs. 1.25 crore to fund the capex in FY2020 and unsecured loan of Rs. 1.0 crore for working capital purpose). It has scheduled repayment of Rs. 1.34 crore in FY2020, Rs. 0.86 crore in FY2021 and Rs. 0.97 crore in FY2022. The accruals of the company are tightly matched with the scheduled repayment as indicated by DSCR of 1.03 times in FY2019 and is expected to remain at similar levels for FY2020. AAPL had Rs. 2.20 crore of unutilized working capital limits as on Sep-2019 and Rs. 1.14 crore of cash balance as on Mar-2019. The free cash flows which was positive in FY2018 turned negative in FY2019 due to low accruals and higher incremental working capital requirements. Going forward, the cash flow position and liquidity will remain contingent to the future capex and working capital requirements of the company.

Rating sensitivities

Positive triggers – Significant improvement in the operating scale through diversification in the client profile in the domestic as well as international markets, sustainable improvement in profitability and working capital cycle strengthens the financial risk profile and liquidity position. Substantial increase in networth. DSCR above 2.0 times on a sustainable basis.

Negative triggers – Weak demand from the end user industry impacts the sales realisations and revenues thereby affecting the cash accruals putting strain on the working capital cycle and further deteriorating the liquidity position. Lack of commensurate returns from the recently planned capital expenditure pertaining to increase in the overall capacity impacting the coverage indicators. DSCR less than 1.1 times on a sustained basis.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Indian Textiles Industry – Apparels
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on standalone financials of AAPL

About the Company:

Incorporated in 2009, Aurora Apparel Pvt. Ltd is engaged in manufacturing of cotton shirts. AAPL is equal joint venture of Tessitura Monti India Pvt. Ltd. and Summer Conf, Romania. The company has majority of the customer base in USA and Europe. APPL's manufacturing unit is located in Nipani, Belgaum in Karnataka with total installed capacity of 2000 shirts per day. The production started in April 2011.

In FY2019, the company reported a net profit of Rs. 0.82 crore on an operating income of Rs. 27.93 crore, as compared to a net profit of Rs. 1.04 crore on an operating income of Rs. 28.19crore in the previous year.

Key Financial Indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	28.19	27.93
PAT (Rs. crore)	1.04	0.82
OPBDIT/ OI (%)	10.06%	8.54%
RoCE (%)	14.05%	10.19%
Total Debt/ TNW (times)	0.84	0.90
Total Debt/ OPBDIT (times)	2.53	3.51
Interest coverage (times)	3.65	3.26

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years:

Sr. No	Instrument	Type	Current Rating (FY2020)		Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding as on March 2019 (Rs Crore)	Date & Rating November 07, 2019	Date & Rating in FY2019 November 12, 2018	Date & Rating in FY2018 October 23, 2017	Date & Rating in FY2017 August 23, 2016
1	Term loan	Long Term	4.38	2.01	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Packing Credit	Short term	6.50	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
3	Non-Fund based	Short term	1.50	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
4	Interchangeable	Long Term/ Short term	(4.00)	-	[ICRA]BB (Stable)/ [ICRA]A4+	[ICRA]BB (Stable)/ [ICRA]A4+	[ICRA]BB(Stable)/ [ICRA]A4+	[ICRA]BB (Stable)/ [ICRA]A4+
5	Unallocated	Long Term/ Short term	2.24	-	[ICRA]BB (Stable)/ [ICRA]A4+	[ICRA]BB (Stable)/ [ICRA]A4+	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Mar-2019	-	Mar-2027	4.38	[ICRA]BB(Stable)
NA	Packing Credit	-	-	-	6.50	[ICRA]A4+
NA	Non-Fund based				1.50	[ICRA]A4+
NA	Interchangeable				(4.00)	[ICRA]BB(Stable)/[ICRA]A4+
NA	Unallocated	-	-	-	2.24	[ICRA]BB(Stable)/[ICRA]A4+

Source: AAPL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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