

November 12, 2020

Aurora Apparel Private Limited: Ratings revised

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund Based / Term Loan	4.38	4.06	[ICRA]BB-(Stable); Downgraded from [ICRA]BB(Stable)
Long-term / Short-term – Interchangeable	(4.00)	(4.00)	[ICRA]BB-(Stable)/[ICRA]A4; Downgraded from [ICRA]BB(Stable)/[ICRA]A4+
Short-term, Fund-based	6.50	6.50	[ICRA]A4; Downgraded from [ICRA]A4+
Short-term, Non-fund-based	1.50	1.00	[ICRA]A4; Downgraded from [ICRA]A4+
Long-term / Short-term – Unallocated	2.24	0.00	-
Total	14.62	11.56	

*Instrument details are provided in Annexure-1

Rationale

The downgrade of ratings takes into consideration the weak financial profile of Aurora Apparel Private Limited (AAPL) characterised by significant decline in operating profit margin and net losses recorded in FY2020. ICRA takes note of its stagnant revenue profile during the past five years, with revenue de-growth anticipated for FY2021 following the disruptions caused by the Covid-19 pandemic. The weakening of the debt service coverage ratio in FY2020 remains a key credit concern for the company. Its margins remain susceptible to volatility in availability and pricing of cotton, its key raw material. It also remains vulnerable to risks associated with the minimum support price (MSP) and export policies concerning the finished goods, i.e. cotton shirts. AAPL's profitability remains exposed to fluctuations in the foreign exchange (forex) owing to its large exports, although the risk is partially mitigated by hedging through forward contracts.

The ratings, however, draw comfort from the extensive experience of AAPL's promoters in the textile industry. ICRA takes note of the operational and financial support extended by the Group companies to AAPL. The company continues to exhibit a geographically diversified revenue profile with its presence in domestic as well as export markets, which safeguards its margins against any geography-specific operational risks to an extent.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that AAPL will continue to benefit from the established track record of its promoters in the textile industry. The company enjoys considerable operational synergy and funding support in the form of unsecured loans and extended credit period from its Group companies – Tessitura Monti India Private Limited (TMIPL) and Summer Conf, Romania. AAPL is likely to draw comfort from the international orders routed through these Group companies providing revenue visibility, while funding support and flexible credit period in the raw material procurement are expected to provide comfort to its capital structure and profitability metrics.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in 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 lends 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 premium cotton shirt fabrics for the European markets. Incorporated in 1996, Summer Conf is present in garment manufacturing.

Operational and financial support from Group entities – TMIPL and Summer Conf provide operational comfort to AAPL through their presence in the textiles industry. 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 unsecured loan in FY2019 and is expected to lend further support with additional infusion of Rs. 1.0-crore unsecured loan, if required.

Geographically diversified revenue profile – AAPL exhibits a geographically diversified revenue profile with presence in domestic as well as overseas (exports) markets. European Union and United Arab Emirates form the bulk of overseas revenues, with onboarding of clients from new geographies such as Australia expected to provide further revenue visibility and geographical diversification, going forward. Such a geographically diversified revenue profile safeguards AAPL's margins against any region-specific operational risks to an extent.

Credit challenges

Stagnant revenues during past five years; revenue de-growth anticipated for FY2021 – AAPL continued to exhibit modest scale of operations with an operating income of Rs. 29.42 crore in FY2020 (provisional). The company's revenues have remained stagnant during the past five years. The revenues are further anticipated to register a de-growth for FY2021 on account of business and demand disruptions caused by the outbreak of Covid-19 pandemic.

Significant decline in operating profit margin and net loss recorded in FY2020 – AAPL reported significant decline in its operating margin in FY2020 primarily on account of higher raw material costs through the fiscal and disrupted sales momentum in Q4 FY2020 leading to lesser absorption of operating costs. Exports were particularly affected in Q4 FY2020, following the restrictions imposed on international movement of goods during the pandemic. This led to disruption of sales pace for AAPL in that quarter, affecting its revenue base and profitability for the fiscal. High depreciation and interest expenses further resulted in a net loss of Rs. 0.89 crore in FY2020. The company's ability to recover its revenue base and profitability, going forward, remains a key credit rating monitorable.

Weakened DSCR in FY2020 – AAPL reported a considerable deterioration in its DSCR in FY2020 on account of suppressed profitability for the fiscal. Its DSCR weakened from 1.03 times (FY2019) to 0.05 times (FY2020), exerting pressure on the company's debt repayment capabilities to an extent. However, the standby line of credit of Rs. 1.0 crore from the promoters is expected to provide some cushion if required.

Susceptibility to volatility in availability, price of cotton and vulnerability to risks associated with MSP and export policies – Operating in 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 and vulnerability to risks associated with MSP and export policies for finished goods.

Susceptibility of AAPL's profitability to forex fluctuations owing to its large exports – AAPL is exposed to foreign exchange risk as much of its sales (~56% for FY2020) are derived from the international market. The company avails a packing credit foreign currency (PCFC) facility, which provides a natural hedge to an extent. It also enters into a forward contract to hedge part of its export receivables, which provides further comfort against the said risk.

Liquidity position: Stretched

AAPL's liquidity position remains **stretched** on account of the net loss in FY2020 and the working capital-intensive nature of operations. The cushion available in the form of undrawn working capital limits remains minimal as indicated by high working capital utilisation of 76% of the drawing power for the seventeen-month period ending in August 2020. It opted for availing moratorium on its debt obligations for April to August 2020, following uncertainty in business operations during the pandemic outbreak in India. The company availed a working capital term loan of Rs. 1.40 crore in the present fiscal in order to ensure business continuity. The term loan repayments stand at Rs. 0.68 crore, Rs. 0.83 crore and Rs. 0.95 crore for FY2021, FY2022 and FY2023, respectively. Its accruals are tightly matched with the scheduled repayment. The company has some cushion to its liquidity position from the Rs. 1.00-crore unsecured debt from its promoters, which could be availed as per the requirement.

Rating sensitivities

Positive triggers – The ratings could be upgraded if the company shows sustained growth in its scale, along with improvement in margins strengthening its liquidity position.

Negative triggers – The ratings could be downgraded if the company shows further decline in its revenue base and sustained deterioration in its profitability leading to a weakening of its liquidity position.

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 financial statements of Aurora Apparel Private Limited

About the company

Incorporated in 2009, Aurora Apparel Private Limited is involved in manufacturing cotton shirts. AAPL is an equal joint venture of Tessitura Monti India Pvt. Ltd. and Summer Conf, Romania. Most of its customer base is from Europe, Australia and the UAE. AAPL's manufacturing unit is located in Nipani, Belgaum in Karnataka with a total installed capacity of 2,000 shirts per day. The company commenced its production activities from April 2011, and recently expanded its production capacity from manufacturing 1,600 shirts per day to 2,000 shirts per day in FY2020.

Key financial indicators

	FY2018	FY2019	FY2020
	Audited	Audited	Provisional
Operating Income (Rs. crore)	28.19	27.93	29.42
PAT (Rs. crore)	1.04	0.82	-0.89
OPBDIT/ OI (%)	10.06%	8.54%	0.62%
PAT/OI (%)	3.70%	2.92%	-3.03%
Total Outside Liability/ Tangible Net Worth (times)	1.81	1.91	2.68
Total Debt/ OPBDIT (times)	2.53	3.74	50.14
Interest Coverage (times)	3.65	3.26	0.26

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Sr. No	Instrument	Type	Current Rating (FY2021)		Date & Rating 12-Nov-2020	Chronology of Rating History for the past 3 years		
			Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2020 (Rs. crore)		Date & Rating in FY2020 7-Nov-2019	Date & Rating in FY2019 12-Nov-2018	Date & Rating in FY2018 23-Oct-17
1	Term loan	Long-Term	4.06	1.40	[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 (Bank Guarantee & Letter of Credit)	Short-term	1.00	-	[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 amount	Long-Term/ Short-term	-	-	-	[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	9.75%	Mar-2024	4.06	[ICRA]BB-(Stable)
NA	Packing Credit	NA	NA	NA	6.50	[ICRA]A4
NA	Non-fund-based	NA	NA	NA	1.00	[ICRA]A4
NA	Interchangeable	NA	NA	NA	(4.00)	[ICRA]BB-(Stable) / [ICRA]A4

Source: Aurora Apparel Private Limited

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

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