

June 16, 2022

Aloka Exports: Long-term rating downgraded to [ICRA]B (Stable) from [ICRA]B+ (Stable); short-term rating reaffirmed at [ICRA]A4

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Limits/CC	3.00	0.00	-
Short-term, Fund-based Limits	15.00	5.00	[ICRA]A4; reaffirmed
Short-term, Non-fund Based Limits	0.60	0.60	[ICRA]A4; reaffirmed
Long Term & Short Term, Unallocated Limited	4.86	17.86	[ICRA]B (Stable) downgraded from [ICRA]B+ (Stable) and [ICRA]A4; Reaffirmed
Total	23.46	23.46	

*Instrument details are provided in Annexure-1

Rationale

The rating action factors in Aloka Exports's (Aloka) weak financial risk profile, as reflected by continued pressure on scale of operations owing to Covid-19 induced disruptions and lower demand from key geographies; and considerable increase in operating losses in FY2022. While the net profitability improved on account of sizeable non-operating income realised from sale of some manufacturing units, the firm is likely to report operating and net losses in the near term due to lower absorption of fixed overheads amid continued pressure on scale of operations. Moreover, there has also been sizeable capital withdrawals due to exit of two partners, adversely impacting the firm's capital structure, debt protection metrics and liquidity position in FY2022. The ratings also continue to factor in the high working capital-intensive nature of business and vulnerability of the firm's profitability to fluctuations in raw material prices as well as the currency fluctuation risks owing to the export-oriented business. ICRA also notes the firm's exposure to high customer and geographic concentration risks, any adverse changes in Government policies on incentives for the textile industry and risks inherent in a partnership firm.

However, the ratings continue to draw comfort from the extensive experience of the firm's promoters in the industry and its wide customer base, which also includes some reputed fashion brands in US and Europe.

The Stable outlook reflects ICRA's opinion that Aloka Exports will continue to benefit from the extensive experience of its partners in the industry and several cost-saving measures taken by the management will enable gradual turnaround and stabilisation of the firm's operations over the medium term.

Key rating drivers and their description

Credit strengths

Four-decade-long experience of partners in the textile industry – Incorporated in 1980, Aloka is promoted by the Agrawal family, which has been in the garment manufacturing and export business since 1968 with the incorporation of Silk Asia, a women wear manufacturer and a sister concern of Aloka. The key promoter and shareholder, Mr. Alok Agrawal, has an experience of over four decades in the textile industry.

Established relationship with reputed clients – Over the years, the firm has developed a wide customer base, which also includes some reputed fashion brands from the US and Europe.

Credit challenges

Weak financial profile as marked by modest scale of operations, operational losses and weak debt protection metrics –

The firm's revenue has remained under pressure in recent years, adversely impacted by the pandemic, high competitive intensity and dip in demand from key customers. Over the past three fiscals, there has been a decline in the operating Income. However, in FY2022, Aloka reported an operating income of Rs. 16.5 crore (as per provisional financials) at similar levels over Rs. 17.0 crore in FY2021. Moreover, lower absorption of fixed overheads and volatility in raw material prices have led to higher operating losses in FY2022. However, net profitability was supported by sizeable non-operating income of around Rs. 11.9 crore realised from sale of some of the manufacturing units in FY2022. Despite the same, the firm is likely to remain loss making at the operating and net levels over the near term, until the market stabilises and export demand picks up globally, enabling the firm to scale up its operations. Additionally, sizeable capital withdrawals due to the exit of two partners have led to a considerable decline in the firm's capital base and an adverse impact on its capital structure and debt protection metrics.

High working capital intensity emanating from high inventory levels - The working capital intensity remains high as represented by NWC/OI (Net Working Capital/Operating Income) of 33.5% as on March 31, 2022, though the same has improved slightly from the previous fiscal on account of some reduction in debtors. High funding requirements have continued to result in almost full utilisation of the working capital limits availed from the bank

Profitability is vulnerable to fluctuations in raw material prices and forex movements - The firm's profitability remains exposed to adverse fluctuations in raw material prices and labour costs for fabric processing activities. Given the increased competition from domestic players as well as international players in China, Bangladesh and Turkey, the firm's ability to pass on an increase in costs to its customers remains limited, as reflected by the decline in the profitability margins over the last two fiscals. Further, as Aloka derives its revenues mainly from the export markets, it remains exposed to fluctuations in foreign exchange rates, as there is no firm hedging policy. Moreover, the profit margins also remain susceptible to changes in Government policies around fiscal benefits for the industry.

High customer and geographical concentration risk – The customer concentration risk remains high with the top 10 customers accounting for more than 80% of the total sales in the last two years. The US and Europe are the key geographies contributing highly to the firm's revenues, thereby exposing it to high geographic concentration risk as well.

Risks inherent in partnership nature of business – Aloka remains vulnerable to the risks inherent in the partnership nature of the firm, such as the risks of capital withdrawal as also evident in FY2022. Sizeable capital withdrawals led to a considerable decline in the firm's capital base.

Liquidity position: Poor

Aloka Exports's liquidity is poor on account of continued operating losses and high working capital intensity of the business. The bank limits have also remained fully utilised over the past year. The firm reported sizeable non-operating income in FY2022, which aided the improvement in net profitability. However there has also been sizeable capital withdrawals in FY2022, with the exit of two partners, leading to considerable decline in the firm's capital base. Moreover, Aloka is expected to continue to report losses over the near term, constraining its liquidity position. The firm will require funding support from its promoters or through incremental bank lines over the near term.

Rating sensitivities

Positive factors: The ratings could be upgraded on a significant scale-up in the operations with a sustained improvement in the profitability and coverage indicators along with an improvement in the liquidity position.

Negative factors: The ratings could be downgraded on a further decline in the scale of operations and continued losses at the operating and net levels, or any sizeable capital withdrawals by the partners, leading to further deterioration of the capital structure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textile Industry -Apparels
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

Aloka Exports was incorporated as a proprietary concern in 1980 and was converted into a partnership firm on October 23, 1987. The firm is a manufacturer and exporter of customised fashion accessories, such as scarves, bandanas, wraps and semi-garments such as women's *kurtas*, shrugs and ruanas. These products are manufactured for prominent mass fashion houses from Europe, the US and Japan, and are sold under individual client brands.

Key financial indicators

Aloka Export - Standalone	FY2021	FY2022*
Operating Income (Rs. crore)	17.0	16.5
PAT (Rs. crore)	-0.5	5.3
OPBDIT/OI (%)	-2.5%	-25.7%
PAT/OI (%)	-2.8%	31.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	2.4
Total Debt/OPBDIT (times)	-20.3	-2.5
Interest Coverage (times)	-0.5	-4.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation *provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					June 16, 2022	April 08, 2021	-	March 05, 2020
1	Overdraft	Long-term	0.00	-	-	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)
2	Pre-shipment /Post shipment Credit	Short term	5.00	-	[ICRA]A4	[ICRA]A4	-	[ICRA]A4
3	Letter of Credit	Short term	0.60	-	[ICRA]A4	[ICRA]A4	-	[ICRA]A4

4	Unallocated Limited	Long-term & Short term	17.86	-	[ICRA]B (Stable) / [ICRA]A4	[ICRA]B+ (Stable) / [ICRA]A4	-	[ICRA]B+ (Stable) / [ICRA]A4
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Complexity level of the rated instrument

Instrument	Complexity Indicator
Short-term, Fund-based Limits	Simple
Short-term, Non-fund Based Limits	Simple
Long Term & Short Term, Unallocated Limited	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 analyzing 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, is available on ICRA's 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	Pre-shipment / Post-shipment Credit	-	-	-	5.00	[ICRA]A4
NA	Letter of Credit	-	-	-	0.60	[ICRA]A4
NA	Unallocated Limited	-	-	-	17.86	[ICRA]B (Stable)/ [ICRA]A4

Source: Company

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

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