

June 21, 2017

## Abhitex International

### Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Fund-based bank facilities – Term Loan	12.55 (reduced from 19.06 earlier)	[ICRA]A- (Stable); upgraded
Fund-based bank facilities – Cash Credit	79.86	[ICRA]A- (Stable); upgraded
Fund-based bank facilities – Standby Line of Credit	15.97	[ICRA]A2+; upgraded
Non fund-based bank facilities – (Bank Guarantee and Credit Exposure Limit)	4.11	[ICRA]A2+; upgraded
Unallocated bank facilities	6.51 (increased from 0.00 earlier)	[ICRA]A- (Stable); upgraded
<b>Total</b>	<b>119.00</b>	

\*Instrument Details are provided in Annexure-1

### Rating action

ICRA has upgraded the long-term rating for the Rs.92.41-crore<sup>1</sup> fund-based bank facilities and Rs. 6.51-crore unallocated limits of Abhitex International (Abhitex) to [ICRA]A- (pronounced ICRA A minus) from [ICRA]BBB+ (pronounced ICRA triple B plus) earlier<sup>2</sup>. Further, ICRA has also upgraded the short-term rating for the Rs. 20.08-crore fund based and non-fund based bank facilities of the entity to [ICRA]A2+ (pronounced ICRA A two plus) from [ICRA]A2 (pronounced ICRA A two) earlier. The outlook on the long-term rating continues to be stable.

### Rationale

The ratings upgrade takes into account the steady improvement in the group<sup>3</sup>'s capitalisation and debt-coverage indicators, supported by a reduction in its term as well as working capital borrowings. Supported by a scheduled decline in the group's repayment obligations from FY2019 onwards and steadily growing scale of operations, the group's coverage indicators are expected to improve over the medium term. However, the extent of improvement will remain contingent upon scale of any debt-funded expansion in the textile business or incremental acquisitions of commercial buildings, which the group may undertake. The ratings also continue to derive strength from the group's long track record of more than four decades in the textile business and ensuing established relationships with reputed customers, as reflected in the demonstrated ability to get repeat business. In addition, favourable government policies regarding export incentives have given a cushion to profitability of the textile business. Further, the attractive locations and competitive rentals in the group's real-estate assets have supported timely renewal of lease agreements by reputed tenants, thereby resulting in high occupancy on a consistent basis.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>3</sup> While assessing the credit profile of Abhitex, ICRA has considered the consolidated financial profile of the key operating entities of the Avinash Paliwal Group viz Abhitex, Paliwal Overseas Private Limited (POPL) and Paliwal Infrastructure Private Limited (PIPL) (refer **Analytical Approach** for details). For details on ratings of PIPL and POPL, please visit [www.icra.in](http://www.icra.in)

The ratings, however, continue to be constrained by large investments made by the group towards, certain non-return generating real estate assets which in turn has constrained the group's return on capital employed (ROCE). The ratings also continue to be constrained by high client concentration risks as well as associated geographical concentration risks in both textiles as well as lease rental businesses. Moreover, notwithstanding the decline in inventory days in the textile business during the past few years, the inventory holding continues to be high at more than three months exposing the group to risk of volatility in prices.

In ICRA's view, the group's ability to sustain and grow its scale of operations while further improving working capital cycle in the textile business and sustain occupancy levels in the leased properties, will be the key driver of its profits and cash flows. Further, the size, nature and timing of future investments will remain monitorable. Besides, the extent of withdrawals by the partners from Abhitex, which is a partnership firm, will also remain monitorable.

### **Key rating drivers**

#### **Credit strengths**

- Improved capitalisation and debt coverage indicators
- Promoters' experience of more than four decades in textile manufacturing and exports
- Strong relationship with overseas clients
- Favourable government policies for the exports; though the sensitivity of profitability to any adverse change in these policies is high
- Consistently healthy occupancy of ~100% by reputed tenants in both commercial properties, supported by attractive locations

#### **Credit weaknesses**

- High customer and geographical concentration risk
- Incremental short-tenor debt which is expected to put some pressure on PIPL's coverage indicators in the near term; however, consolidated coverage indicators continue to be comfortable
- High inventory turnover period in textile business
- Fragmented and unorganized nature of home furnishing industry
- Group's track record of deploying surplus accruals as well as leveraging for real estate investments

#### **Description of key rating drivers:**

With more than four decades of experience in the textile sector, Abhitex's partners have established a strong base in the export markets which has been providing it repeat business, though it continues to be concentrated, with the top three clients accounting for more than one-thirds of the firm's total sales. This also leads to geographic concentration risks with the United Kingdom accounting for ~42% of sales and the United States of America accounting for ~47% of sales in FY2017. Though favourable government policies in India regarding export incentives provide a cushion to profitability and cash accruals of the textile business, any changes in the import duty structure in key countries of export and demand slowdown in key markets can affect the group's sales and profitability for the textile business.

Supported by improved capacity utilisation, the group's textile business has been growing at a comfortable pace as reflected in a CAGR of 8% in its turnover between FY2012 and FY2017. Further, the group's textile business is characterised by range-bound operating margins and high inventory holding requirements. Although Abhitex's inventory holding has reduced from 181 days in FY2015 to 107 days in FY2017, it continues to be high which exposes the entity's profitability to risk of volatility in prices given the time lag between order booking and execution. Nevertheless, reduction in inventory levels has facilitated a decline in working capital borrowings which together with limited debt-funded capex

undertaken in the textile segment has resulted in strengthening of Abhitex's capitalisation and debt coverage indicators as well as surplus cash flow generation from the business over the past few years.

Besides certain non-return generating investments in group's real-estate portfolio which constrains its return indicators, the group owns commercial properties in PIPL and POPL. Favourable location of these properties has facilitated sustained 100% occupancy over the years. While the client concentration risk is high as reflected in top three tenants accounting for ~75% of leased area, the tenant base includes reputed names such as Deloitte group, CA Technologies and Fair Issac, who have renewed their leases timely in the past, thereby mitigating the lease renewal risk to some extent. This together with timely receipt of rentals and presence of escrow mechanism provides comfort with respect to debt servicing.

While on the one hand, healthy profits and cash accruals have enabled the group to prepay instalments facilitating a faster than scheduled amortisation of term debt; on the other hand, the group's textile business has reported a faster cash conversion cycle with a consistent decline in inventory turnover period over the past few years, resulting in lower working capital borrowings. Although incremental debt availed by PIPL during FY2017 to purchase a property for group's office use in Delhi has resulted in a weakening of the rental to EMI cover for the company; consolidated coverage indicators continue to be comfortable. Further, the risk on account of the same has been abated by an undertaking provided by PIPL to maintain adequate liquidity equivalent to two-month Equated Monthly Instalments (EMIs) on the new loan.

**Analytical approach:** Consolidated financial profile of the key operating entities of the Avinash Paliwal Group having strong financial linkages has been considered, including Abhitex, POPL and PIPL. While Abhitex International is engaged in the textile business, POPL and PIPL own leased commercial buildings. Real estate investments account<sup>4</sup> for over 50% of capital employed for the group.

**Links to applicable criteria:**

- [Corporate Credit Rating Methodology](#)
- [Debt Backed By Lease Rentals \(LRD-Lease Rental Discounting Loans\)](#)
- [Rating Methodology for Indian Textiles Industry –Fabric](#)

**About the entity:**

Established in 1993 Abhitex International (Abhitex) is a partnership firm promoted by Mr. Avinash Paliwal and his family members as partners. The firm is engaged in designing, manufacturing and marketing of textile made-ups such as terry towels, bath mats, rugs, durries and cushion covers, among others. Abhitex derives almost its entire revenues from exports to renowned retailers and brands such as ASDA Stores, Denelm, Ralph Lauren in the United Kingdom and the United States of America. Abhitex has three units in Panipat, Haryana, having manufacturing facility of 81 looms for terry towels, 68 looms for fabric for home furnishing products and over 250 tufting machines for rugs and bath mats, besides ample dyeing capacity.

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<sup>4</sup> ICRA estimate

Abhitex is a part of the Avinash Paliwal group of Panipat which has business interests in home textiles and real estate sectors. The group is promoted by Mr. Avinash Paliwal, who has more than four-decade long experience in manufacturing and export of textile products. The key operations of the group are carried out by four entities, namely – Abhitex International, The Weave Land, Paliwal Overseas Pvt. Ltd and Paliwal Infrastructure Pvt Ltd. The promoters of the group have also entered into an agreement with Parsvnath Developers Limited for the joint development of Parsvnath Paliwal City in Panipat, which is spread across 163 acres.

**Status of non-cooperation with previous CRA:** CRISIL had suspended its BB+ (Stable) rating for the bank facilities of Abhitex International vide press release dated April 26, 2016. The suspension of rating was on account of non cooperation by Abhitex.

**Any other information:** Not applicable

**Rating history for last three years:**

**Table:**

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				June 2017	Jul 2016	June 2015	-
1	Term Loan	Long Term	12.55	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Stable)	-
2	Cash Credit	Long Term	79.86	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Stable)	-
3	Standby Line of Credit	Short Term	15.97	[ICRA]A2+	[ICRA]A2	[ICRA]A3	-
4	Bank Guarantee & Credit Exposure Limit	Short Term	4.11	[ICRA]A2+	[ICRA]A2	[ICRA]A3	-
5	Unallocated	Long Term	6.51	[ICRA]A-(Stable)	-	-	-

**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](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Instrument</b>	<b>Date of Issuance/ Sanction</b>	<b>Coupon Rate</b>	<b>Maturity</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating</b>
Term Loan I	-	-	April 2022	6.34	[ICRA]A- (Stable)
Term Loan II	-	-	March 2023	6.21	[ICRA]A- (Stable)
Cash Credit	-	-	-	79.86	[ICRA]A- (Stable)
Standby Line of Credit	-	-	-	15.97	[ICRA]A2+
Bank Guarantee	-	-	-	0.11	[ICRA]A2+
Credit Exposure Limit	-	-	-	4.00	[ICRA]A2+

*Source: Abhitex*

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