

## Poppys Knitwear Private Limited

April 05, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - fund based/CC	102.00	102.00	[ICRA]B+ (Stable) revised from [ICRA] BB- (stable)
Short term – non fund based	11.00	11.00	[ICRA]A4; reaffirmed
<b>Total</b>	<b>113.00</b>	<b>113.00</b>	

### Rating action

ICRA has revised the long-term rating outstanding on the Rs. 102.00 crore<sup>1</sup> fund based facilities of Poppys Knitwear Private Limited (Poppys / company)<sup>2</sup> from [ICRA]BB- (pronounced ICRA double B minus) to [ICRA]B+ (pronounced ICRA B plus). ICRA has reaffirmed the short term ratings outstanding on the Rs.11.00 crore of non fund based facility at [ICRA] A4 (pronounced ICRA A four). The outlook on the long-term rating is 'Stable'.

### Rationale

The rating revision factors into consideration the stretched liquidity position of the company as characterised by high utilization of working capital limits and deteriorating coverage indicators. Further the ratings factors in the considerable long-term advances to group entities and acquisition of two hotels at cost of Rs.19 crore which further exacerbated the liquidity position of the company. The ratings also remain constrained by the modest probability metrics amidst the increasing employee cost in FY2017. These apart, the ratings also remain constrained by in high customer concentration risk with over 60% of revenue from a single customer based out of Europe. Nonetheless, the ratings continue to favourably factor into consideration the long standing track record of the company and experience of its promoters in manufacturing and exporting garments since 1974. Further its integrated manufacturing facility with knitting, dying, garmenting, printing and embroidery division which supports profitability to an extent.

### Outlook: Stable

The stable outlook reflects ICRA's expectation that the company's performance will continue to benefit from its long standing experience of promoters. The outlook will be changed to positive if the company's profitability metrics and liquidity position improve. The outlook will be changed to negative if there is further deterioration in profitability metrics or any further loans or advances to group concerns stretching the liquidity position of the company.

<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

## Key rating drivers

### Credit strengths

**Established presence in the garment manufacturing business** – The company specialises in manufacturing of knitted garments catering to the demand of European and U.S. markets and has experience in this segment for over four decades. Further the company has established relationships with leading brands based out of the United Kingdom ensuring repeat orders.

**Integrated manufacturing facility in the textile value chain** – The company's manufacturing facility is integrated with knitting, dyeing, garmenting, printing and embroidery facilities. The integration supports profitability and reduction of lead time in the manufacturing process.

### Credit weaknesses

**Stretched liquidity position, Weak coverage indicators** – The liquidity position of the company remain stretched with current ratio at 0.66 times in 11mFY2018 as against 0.83 times in FY2017 and 0.89 times in FY2016. Further the company has invested Rs.19 crore in hotel venture during FY2017 and FY2018 exacerbated the company's liquidity position further. The interest coverage ratio continues to remain moderate at 2.5 times in 11mFY2018 as the working capital borrowings continued to remain high.

**High working capital borrowing despite reduction in working capital intensity** – Though the working capital intensity reduced from 44% in FY2016 to 33% in FY2017 and 25% in 11mFY2018, the average working capital borrowing continues to remain over Rs.80 crore since FY2016 resulting in high interest cost.

**Moderate profitability metrics due to increase in employee expense and subdued demand** – The operating margins remained under pressure at 5.5% in 11mFY2018 and 4.7% in FY2017 as against 7.7% in FY2016, primarily due to increase in employee cost from FY2017 coupled with subdued demand from the European market.

**High customer concentration risk** – The company generates 60% of its revenue from a single customer based out of U.K resulting in high customer and geographic risk. Further regulatory changes in U.K. have a direct implication on the operations of the company.

**Margins susceptible to fluctuation raw material prices and Forex rates** – The primarily raw material being cotton yarn exposes the company's margin to fluctuation in raw material prices. Further, being an export oriented unit, any fluctuation in forex will directly impact the profitability of the company.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Indian Textile Industry – Apparels](#)

## About the company:

Poppys Knitwear Private Limited (Poppys) is a garment exporter based out of Tirupur, Tamil Nadu. Promoted by Mr. Sakthivel in 1973, Poppys is engaged in knitting, processing (dyeing), garmenting (sewing), printing and embroidery of cotton garments. Poppys has its manufacturing facilities located in and around the thirupur belt (knitting, processing, garmenting, and printing and embroidery facilities). The company caters primarily to exports to renowned brands/marketers in the Europe and US market.

## Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	191.2	199.6
PAT (Rs. crore)	5.1	2.1
OPBDIT/ OI (%)	7.7%	4.7%
RoCE (%)	9%	7%
Total Debt/ TNW (times)	4.6	3.8
Total Debt/ OPBDIT (times)	6.8	9.5
Interest coverage (times)	2.8	1.9
NWC/ OI (%)	44%	33%

**Status of non-cooperation with previous CRA:** 'CRISIL A4/Issuer Not Cooperating' as on January 12, 2018

**Any other information:** None

## Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2013	Date & Rating in FY2012
1	Fund based	102.00	102.00	April 2018 [ICRA] B+ (Stable)	Dec 2016 [ICRA] BB- (Stable)	Oct 2018 [ICRA] BB- (Stable)	-
2	Non fund based	11.00	11.00	[ICRA] A4	[ICRA] A4	[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](http://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
	Fund based limit	NA	NA	NA	102.00	[ICRA] B+ (Stable)
	Letter of credit	NA	NA	NA	8.00	[ICRA] A4
	Bank guarantee	NA	NA	NA	2.00	[ICRA] A4
	Forward cover	NA	NA	NA	1.00	[ICRA] A4

Source: Poppys Knitwear Private Limited

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