

Atlas Exports (India)

February 20, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Foreign Bill Purchase	10.00	4.00	[ICRA]BBB+(Stable); reaffirmed
Fund based - Packing Credit	(10.00)	(4.00)^	[ICRA]A2+; reaffirmed
Unallocated limits	-	6.00	[ICRA]BBB+(Stable)/ [ICRA]A2+; reaffirmed
Total	10.00	10.00	

[^]Interchangeable

*Instrument details are provided in Annexure 1

Rationale

The ratings reaffirmation continues to factor in the extensive experience of the partners of Atlas Export (India) (Atlas Exports) in the fabric processing business and its established relationship with customers from East and West African markets, which have resulted in repeat orders. The ratings also continue to draw comfort from the firm's comfortable capital structure as indicated by low gearing of 0.03 times as on March 31, 2018 on the back of a strong net worth base and controlled debt levels leading to healthy coverage indicators. Furthermore, the ratings derive comfort from the comfortable liquidity position with sizeable unencumbered cash balances.

The ratings, however, are constrained by the firm's exposure to high geographic concentration risks, as more than 75% of its revenues are driven by the East and West African markets, which are also vulnerable to various currency/socio-political risks. The ratings, moreover, continue to remain constrained by the vulnerability of the firm's profitability to any unfavorable changes in export incentive schemes by the Government of India and foreign currency exchange rate fluctuations because of export dominated sales. Furthermore, the ratings remain constrained by the slow receivables, which resulted in high net working capital intensity as indicated by NWC/OI of 31.3% as on March 31, 2018. Further, the firm's profitability is exposed to intense competitive pressures from other low-cost domestic as well as overseas exporters. ICRA also notes that Atlas Exports is a partnership concern, and hence, its capital structure remains exposed to capital withdrawals.

Outlook: Stable

ICRA expects Atlas Exports to continue to benefit from the extensive experience of its promoters in the fabric processing business on a job-work basis. The outlook may be revised to Positive if substantial growth in profitability and the margins on a consistent basis strengthens the firm's financial risk profile while reducing its working capital cycle. The outlook may be revised to Negative if cash accruals are lower than expected because of a decline in profitability, or a further stretch in the working-capital cycle due to slow receivables weakens the liquidity position

Key rating drivers

Credit strengths

Extensive experience of partners in the fabric processing business with strong customer network developed in African markets over past three decades - The flagship entity of the Atlas Group, Atlas Exports, was established in 1979 and is engaged in processing and exporting printed fabrics, particularly women's ethnic wear such as kaftans, khangas, dashikis,

and kitenges on a job-work basis for East and West African markets. The partners have an extensive experience of over three decades in the fabric industry, which has been instrumental in building strong relationships with overseas customers.

Favourable capital structure and healthy coverage metrics – The financial profile of Atlas Exports is characterised by a low gearing profile of 0.03 time amid a strong net worth base, healthy coverage indicators as reflected by OPBDITA/Interest of 24.1 times and NCA/Total debt of 159.7% as on March 31, 2018.

Comfortable liquidity position supported by significant free cash balance as on March 31, 2018 – Despite the reduction in working capital limits, the overall utilisation continues to remain low, with nil utilisation during the July–December 2018 period. Furthermore, Atlas Exports had unencumbered cash and liquid balances of ~Rs. 10.07 crore as on March 31, 2018.

Credit weaknesses

High geographic concentration risk– The firm’s operations are concentrated in the East and West African markets that contribute more than 75% to the total revenue share. Due to the unstable nature of the markets arising from currency/socio-political risks in the form of currency depreciation or changes in government, the firm’s revenue has seen a sluggish to Rs. 365.1 crore in FY2018 against Rs. 363.01 crore in FY2017. The overall slowdown in the key consuming markets has also affected the firm’s receivable cycle, which was stretched with debtor days at 107 days as on March 31, 2018, increasing from 94 days as on March 31, 2017.

Profitability exposed to any unfavourable changes by the Government of India to export incentives and foreign exchange rate fluctuation risks – With the onset of GST, the export incentives and duty drawback schemes, which accounted for ~5–6% of the operating income have come down to 3-4% of the operating income and is one of the reasons for a decline in the operating profitability to 7.4% in FY2018 from 8.4% in FY2017. Nevertheless, Atlas Exports is expected to benefit from the input tax credit on purchases, which it was ineligible to claim earlier, thereby not impacting the operating profits to a large extent. In addition, since the firm exports most of its products, it is exposed to foreign exchange fluctuation risks. Although comfort can be drawn from the fact that ~50% of the receivables are hedged.

Inherent risk associated with partnership entities like withdrawal of capital by partners - The firm is exposed to the risk of withdrawal of capital by partners, which could impact its capital structure. There have been instances of significant withdrawal of capital by the partners in the past.

High competitive intensity due to fragmented nature of the fabric processing industry; significant competition from other exporters in India as well as in other low-cost countries - The firm faces competition from domestic textile exporters who enjoy an established network in African nations. Besides domestic manufacturers, suppliers from China, Bangladesh and low-cost South East Asian countries also increase the competitive intensity.

Liquidity position

The firm does not have any long-term debt from the bank. Despite the sanctioned working capital limits being reduced to Rs. 4 crore from Rs. 10 crore, the overall utilisation level remained low in the past 12 months. In addition, the firm has free cash balance of ~Rs. 10 crore, which renders support to the liquidity position. ICRA does not foresee any major concerns on liquidity, given the absence of any capacity expansion plans and term-debt repayments, besides the minimal requirement of incremental working capital funding. Thus, the liquidity position at present remains comfortable with low working capital limit utilisation.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Indian Textiles Industry – Fabric Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the group

The Atlas Group has two major operating firms, Atlas Exports and Amber Exports. The Atlas Group exports printed fabrics and other textile products (together ~85%), confectionaries, toiletries, etc. In the textile segment, it specialises in women's ethnic wear such as kaftans, khangas, dashikis and kitenges as well as unstitched suiting and shirting fabrics for men. The firms process fabrics through a network of job workers from the textile hub of Jetpur (Rajkot, Gujarat). The Group exports cotton and polyester fabrics under the 'Atlas' brand, and unstitched suiting and shirting fabrics under the 'Amber' brand. The Group's head office is in Andheri, Mumbai.

About the company

Atlas Exports was established in 1979 as a partnership firm by Mr. Mahendra Avlani and Mr. Bharat Shah. The firm is engaged in manufacturing and exporting printed fabrics on a job-work basis. Over a span of 35 years, the firm has expanded its network to over 20 countries across East and West Africa, West Asia, Central and Latin America.

In FY2018, the company reported a net profit before tax of Rs. 30.1 crore on an OI of Rs. 383.5 crore, compared to a net profit before tax of Rs. 31.3 crore on an OI of Rs. 385.0 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	385.0	383.5
PBT (Rs. crore)	31.3	30.1
OPBDIT/ OI (%)	8.4%	7.4%
RoCE (%)	26.9%	24.1%
Total Debt/ TNW (times)	0.03	0.03
Total Debt/ OPBDIT (times)	0.1	0.1
Interest Coverage (times)	27.7	24.1
NWC/ OI (%)	25.5%	31.3%

Status of non-cooperation with previous CRA: Not applicable

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 Feb 2019	Date & Rating in FY2018 Dec 2017	Date & Rating in FY2017 Dec 2016	Date & Rating in FY2016 Mar 2016	
1	Foreign Bill Purchase	Long term	4.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Packing Credit	Short term	(4.00)	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
3	Unallocated	Long term/Short term	6.00		[ICRA]BBB+ (Stable)/ [ICRA]A2+			

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	Foreign Bill Purchase	-	-		4.00	[ICRA]BBB+ (Stable)
NA	Packing Credit	-	-		(4.00)^	[ICRA]A2+
NA	Unallocated limits				6.00	[ICRA]BBB+ (Stable)/ [ICRA]A2+

[^]Interchangeable

Source: Atlas Exports

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Srinivas Menon
+91 22 61693354
srinivas.menon@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Vidhi Vasa
+91 22 6169 3352
vidhi.vasa@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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