

Acknit Industries Limited

February 25, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	7.65	7.65	[ICRA]BBB- (Stable); Reaffirmed
Fund Based – Cash Credit	49.00	49.00	[ICRA]BBB- (Stable); Reaffirmed
Non-Fund based – Bank Guarantee	1.00	1.00	[ICRA]BBB- (Stable); Reaffirmed
Non-Fund Based – Letter of Credit	7.50	7.50	[ICRA]A3; Reaffirmed
Non-Fund Based – Forward Contract Limit	2.90	2.90	[ICRA]A3; Reaffirmed
Total	68.05	68.05	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings takes into consideration AIL's long presence in the industrial safety product industry and its reputed client base, which, along with a diverse and flexible product mix, strengthens its market position. The ratings also favourably factor in AIL's diversified geographic presence and the steady increase in garment sales in the domestic market which reduces its dependence on exports. The ratings further derive comfort from AIL modest order book position of around Rs. 59 crore on January 31, 2019, which provides revenue visibility in the near term.

The ratings are, however, constrained by the intense competition in the safety product industry and the low bargaining power against established clients, which limits pricing flexibility, and leads to moderate profitability and modest debt-coverage indicators. The ratings are also impacted by the high working-capital intensity of operations, which exerts pressure on liquidity and leads to considerable working-capital borrowings. Further, the ratings continue to factor in the vulnerability of the company's profitability to fluctuations in the foreign currency exchange rates, although the same is mitigated to a considerable extent by partial natural hedge and other formal hedging mechanisms adopted by the company.

Outlook: Stable

ICRA believes that AIL will continue to benefit from the extensive experience of its promoters and established market position of the company in the safety-products industry. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working-capital management, strengthen the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working-capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Long presence in the industrial safety-products industry - AIL has been involved in the manufacture and export of industrial gloves since 1990. The company also exports industrial garments and other safety products. AIL's long experience in the segment renders competitive advantage, notwithstanding low entry barriers in the industry.

Established relationship with clientele coupled with diverse and flexible product mix strengthen operating profile - AIL has a reputed and established client base across industries which generates repeat orders and reduces counterparty risks. Further, the company's diverse range of products, along with presence in readymade garments, provide a cushion against adverse market conditions in any particular segment.

Steady increase in readymade garment sales – AIL's revenue from readymade garments have consistently increased to Rs. 47.35 crore in FY2018 from Rs. 20.28 crore in FY2014, supported by healthy inflow of demand from reputed retail customers including Pantaloons Fashion & Retail Ltd, Lifestyle International Pvt Ltd, Arvind Lifestyle Brand Ltd, Apparel FZCo etc. This has helped AIL reduce its segmental concentration risk to an extent. Nevertheless, margins from this segment continue to remain low.

Diversified geographic presence – AIL's geographic presence continues to remain fairly diversified with sales being made across USA, Europe, Middle-Eastern countries etc. Further, consistent increase in revenue from garment sale in the domestic market has helped AIL to reduce its dependence on exports.

Credit challenges

Intense competition and low bargaining power against established clients limit pricing flexibility and margins - Intense competition in the international safety-wear market on account of the low value-accretive nature of products and limited bargaining power against large overseas clientele impact pricing flexibility, which keeps margins at a moderate level despite export incentives received from the government. Moderate profitability and high debt levels result in modest coverage indicators.

High working-capital intensity of operations - The company's working capital intensity of operations continues to remain high on account of considerable inventory stocking requirements due to its large product portfolio, coupled with an extended receivables cycle primarily in the readymade garment segment. AIL's NWC/OI stood at a high level of 42% during FY2018, exerting pressure on its liquidity and resulting in high working capital borrowings.

Considerable dependence on exports; however, foreign exchange rate fluctuation risk is hedged with forward contracts – The company generates a significant portion (70% in FY2018) of its revenue from export sales which exposes AIL to foreign exchange rate fluctuation risk. However, the foreign currency exposure is mainly hedged by forward cover. In addition, import of some of the raw materials provides a partial natural hedge. This mitigates the company's foreign exchange rate fluctuation risk to a large extent.

Liquidity Position

AIL's high working capital intensity of operations exerts pressure on its liquidity position and keeps its working capital borrowings at a high level. Further, the company is likely to undertake debt-funded capex in the near term for infrastructure upgradation and capacity expansion, which is estimated to increase its long-term debt repayment obligations. With AIL's business expected to chart a modest growth in the medium term, its FFO is estimated to remain at around present level. The company's utilisation of working capital facilities stood at around 81% in the 14 months ended December 2018.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	Standalone

About the company:

Acknit Industries Limited was founded in 1990 as a private limited company for manufacturing seamless knitted hand gloves for industrial use. The entity was converted into a limited concern under the name Acknit Knitting Limited in 1994, and it entered the capital market in 1995. The name of the company was changed to Acknit Industries Limited in 2007. The company gradually diversified its product range to include leather, coated and dotted industrial gloves, as well as protective industrial garments and children's garments. It has four manufacturing units in West Bengal, with two located in the Falta Special Economic Zone (FSEZ), Sectors I and II, and two located in Ganganagar. Additionally, the company operates a windmill (1.25 MW) in Dhule, Maharashtra.

AIL has a group company, Acme Safetywears Limited (ASL; rated at [ICRA]BB (Stable)/[ICRA]A4), which manufactures industrial safety wears like hand gloves, protective garments and safety shoes. It also trades in various industrial safety items. ASL has plants in West Bengal and Tamil Nadu.

Key financial indicators (audited)

	FY2017	FY2018	9M FY2019
Operating Income (Rs. crore)	159.03	161.06	119.67
PAT (Rs. crore)	3.19	2.97	3.09
OPBDIT/OI (%)	5.83%	5.07%	4.47%
RoCE (%)	10.73%	10.42%	-
Total Debt/TNW (times)	1.66	1.32	-
Total Debt/OPBDIT (times)	6.15	6.69	-
Interest coverage (times)	1.93	1.46	1.44

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding December 31, 2018 (Rs. Crore)	Date & Rating February 2019	Date & Rating in FY2018 March 2018	Date & Rating in FY2017 March 2017	Date & Rating in FY2016 March 2016	
1 Term Loan	Long Term	7.65	1.33	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	
2 Cash Credit	Long Term	49.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	
3 Bank Guarantee	Long Term	1.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	
4 Letter of Credit	Short Term	7.50	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	
5 Forward Contract	Short Term	2.90	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	

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	February 2014	-	June 2020	3.65	[ICRA]BBB- (Stable)
NA	Term Loan	January 2016	-	June 2022	4.00	[ICRA]BBB- (Stable)
NA	Cash Credit	NA	-	NA	49.00	[ICRA]BBB- (Stable)
NA	Bank Guarantee	NA	-	NA	1.00	[ICRA]BBB- (Stable)
NA	Letter of Credit	NA	-	NA	7.50	[ICRA]A3
NA	Forward Contract	NA	-	NA	2.90	[ICRA]A3

Source: All

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