

Precise Seamless Apparels Private Limited

April 04, 2019

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loan	11.00	11.00	[ICRA]B+ (Stable); reaffirmed
Long-term Fund-based Cash Credit	15.00	15.00	[ICRA]B+ (Stable); reaffirmed
Short Term – Non-fund Based	8.00	8.00	[ICRA]A4; reaffirmed
Total	34.00	34.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation takes into account the extensive experience of the promoters in the seamless garment export business and its established relationship with overseas clients. The ratings, however, remain constrained by Precise Seamless Apparels Private Limited's (PSAPL) moderated financial performance in FY2018 and high client-concentration risk which exposes it to revenue fluctuations and makes it susceptible to volatility in foreign exchange rates. Further, the ratings take into account the vulnerability of the company's profitability to adverse fluctuation in prices of key raw materials as large part of the same is imported.

Outlook: Stable

ICRA believes that PSAPL will continue to benefit from the extensive experience of its promoters in the textile industry. The outlook may be revised to Positive if substantial growth in revenues and profitability and better working capital management strengthen the company's financial risk profile. Conversely, the outlook may be revised to Negative if the cash accrual is lower than expected, or if any major capital expenditure leads to further deterioration in capital structure of the company, or a stretched working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Established track record of promoters in garment export business – PSAPL is a promoter-driven company led by Mr. Vinod Kumar Jindal, who has over two decades of experience and is actively involved in all its operations.

Reputed clientele with track record of repeat orders from large customers – The company has track record of supplying seamless garments to overseas customers and has built healthy business relationships over the years. The past trend of getting repeat orders provides revenue visibility.

Credit challenges

Moderation in financial risk profile in FY2018 –The company's performance moderated in FY2018 with the operating income declining ~30% to Rs. 60.40 crore in FY2018 owing to subdued demand in export market, resulting in lower volume offtake and decrease in sales realisation. With the moderation in profitability and increased debt level, the gearing and debt coverage ratios too moderated in FY2018. However, the sales orders have again picked up in FY2019.

High client and geographic-concentration risk; established relationship with clients a mitigant – The top three customers contribute around 99% to the company’s total sales, reflecting high customer-concentration risk. However, PSAPL has well-established relations with these customers. It supplies to well-known international players such as Kohl’s and Gap, both USA-based Groups, which heightens geographical risk.

Profit margins remain exposed to volatility in raw material prices – The majority of the raw materials such as nylon and lycra are sourced internationally. This exposes the company to raw material price fluctuations. Any adverse movement in the price of raw materials could have a negative impact on the company’s margins.

Vulnerability of profitability to adverse foreign exchange fluctuations –The company continues to focus on overseas markets as almost 99% of its products are exported to USA, China, etc. As a result, it remains exposed to the risk of adverse foreign exchange fluctuations.

Liquidity position

The company’s fund flow from operations remained positive in FY2018. The utilisation of working capital limit remained moderate with the average utilisation of ~44% during March 2018–February 2019. ICRA expects the company’s liquidity to remain moderate, given the absence of capacity expansion plans and scheduled term debt repayments.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian Textiles Industry –Apparels
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Incorporated in 2004 by Mr. Jindal, PSAPL is a seamless garment manufacturer and exporter, particularly of women’s seamless garments. It is a five-star export house situated in Gurugram, Haryana with a work area of 50,000 sq. feet. and an installed capacity to manufacture ~48 lakh garment pieces in a year. Mr. Jindal has over two decades of experience in the textile industry.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	86.08	60.40
PAT (Rs. crore)	1.10	0.82
OPBDIT/OI (%)	9.06%	11.75%
RoCE (%)	10.09%	9.98%
Total Debt/TNW (times)	1.79	1.66
Total Debt/OPBDIT (times)	3.28	3.53
Interest Coverage (times)	2.66	2.33

Status of non-cooperation with previous CRA

CRISIL has suspended CRISIL B (Stable)/CRISIL A4 ratings on the bank facilities of Precise Seamless Apparels Private Limited (PSAPL) on March 16, 2016. The suspension of ratings is on account of non-cooperation by PSAPL with CRISIL's efforts to undertake a review of the ratings outstanding.

Any other information: None

Rating history for last three years

	Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020 April 2019	Date & Rating in FY2019	Date & Rating in FY2018 February 2018	Date & Rating in FY2017	
Instrument								
1 Cash Credit	Long Term	1.00		[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)	-	
2 EPC/PCFC	Long Term	14.00		[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)	-	
3 Term Loans	Long Term	11.00	10.15	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)	-	
2 Letter of Credit	Short Term	8.00		[ICRA]A4	-	[ICRA]A4	-	

*As on March 31, 2018

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	Cash Credit	-	-	-	1.00	[ICRA]B+ (Stable)
NA	EPC/PCFC	-	-	-	14.00	[ICRA]B+ (Stable)
NA	Term Loans	FY2013	-	FY2023	11.00	[ICRA]B+ (Stable)
NA	Letter of Credit	-	-	-	8.00	[ICRA]A4

Source: PSAPL

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