September 14, 2020

Abhitex International: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facility (Cash Credit)	79.86	95.83	[ICRA]A(Stable); reaffirmed
Long-term fund-based bank facility (Term Loan)	4.60	12.55	[ICRA]A(Stable); reaffirmed
Long-term Unallocated	14.46	6.51	[ICRA]A(Stable); reaffirmed
Short-term fund-based bank facility (Standby Line of Credit)	15.97	0.00	-
Short-term non-fund-based bank facility (Bank Guarantee)	0.11	0.11	[ICRA]A1; reaffirmed
Short-term non-fund-based bank facility (Credit Exposure Limit)	4.00	4.00	[ICRA]A1; reaffirmed
Total	**119.00**	**119.00**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has consolidated the financials of three group entities of the Avinash Paliwal Group (referred to as the Paliwal Group or the Group, hereafter), namely Abhitex International (Abhitex), Paliwal Overseas Pvt. Ltd. (POPL) and Paliwal Infrastructure Pvt Ltd (PIPL) (refer to the ***Analytical Approach*** *for details).*

The ratings continue to derive strength from the Group's favourable operational profile, with a diversified presence across textile and real estate businesses, supported by the promoters' extensive experience in these segments, and a strong consolidated financial risk profile characterised by a conservative capital structure (Total Debt (TD)/ Tangible Net Worth (TNW) of 0.2 time in FY2020) and healthy debt coverage metrics (interest cover of 19.6 times in FY2020). The promoters' experience of more than four decades in the textile industry and established relationships with reputed overseas clientele have facilitated repeat business, thereby supporting steady revenue growth in the Group's home textile segment over the years. While reaffirming the ratings, ICRA has taken a note of a moderation in the group's home textile business in Q4 FY2020 and the current financial year, owing to the Covid-19 pandemic. However, gradual ramp up being witnessed in sales with opening up of markets globally, together with increased focus on higher margin products, is expected to cushion the decline to a certain extent and facilitate an improvement in performance in H2 FY2021. ICRA also notes the exit of tenants from one of the Group's commercial properties in Hyderabad in Q4 FY2020, which affected revenues and profits from the real estate segment. ICRA, however, draws comfort from settlement of the LRD loan against the vacant property as well as adequacy of surplus cash profits from other group entities to service the new borrowings of the entity. While the entity remains exposed to market risk, particularly amid the prevailing weak business scenario, and its ability to enter into new lease in a timely manner and at favourable terms remains to be seen, the property's prime location and the interest from potential tenants provide comfort. Moreover, competitive rentals of the leased properties have historically supported timely renewal of lease agreements by reputed tenants, resulting in high occupancy on a consistent basis.

The ratings, however, continue to be constrained by high client as well as geographical concentration risks in both textile as well as real estate businesses. Besides the concentration of the Group's lease rental revenues on its top few clients and the re-leasing risk for its Hyderabad property, short to medium tenure lease contracts with most of its clients exposes the Group to risks associated with timely renewal of leases at favourable rentals. Moreover, despite the decline in inventory days in the textile business in recent years, the inventory holding continues to be high, resulting in high working capital intensity. This also exposes the Group to risk of volatility in prices of raw material (mainly cotton yarn) and finished goods, as there is a lag between order booking and deliveries. In addition, the textile segment's profitability remains exposed to any adverse change in the export incentive structure, which currently supports the profitability of textile exporters as well as the Group's competitiveness amid intense competition from other domestic and international suppliers.

Although the Group's return indicators (return on capital employed or ROCE of 10.9% in FY2020) remain suppressed by large investments in certain non-return generating assets, ICRA expects its capitalisation and debt coverage metrics to remain healthy in the near to medium term, with steady surplus cash accrual generation capacity of the businesses and a significant decline in the Group's term repayment obligations from FY2021 onwards. Supported by steady cash accruals, the Group's liquidity profile is also expected to remain adequate, subject to no major incremental investments in real estate assets that the Group may undertake in line with its track record.

The Stable outlook on the [ICRA]A rating reflects ICRA's expectation that a recovery in demand in the textile segment and timely re-leasing of commercial property at favourable rentals would help the Group generate comfortable cash accruals. The same would also help the Group to report healthy coverage metrics and maintain an adequate liquidity profile in the near to medium term, despite the performance pressures witnessed in H1 FY2021.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in home textile and commercial real estate businesses – The Paliwal Group is promoted by Mr. Avinash Paliwal, who has extensive experience in the home textiles and real estate businesses. Operational since 1974, the textile arm of the Group, Abhitex, has more than four decades of experience in the sector. Further, the Group ventured into real estate in 2004 with the acquisition of a commercial property in Bengaluru, thus translating into more than a decade's experience in the commercial real estate market.

Strong relationships with overseas clientele including leading home furnishing retailers – Over the years, the Group has developed a strong client base in the export markets of the UK and USA, who have been providing repeat business. Abhitex derives almost its entire revenues from the export market with its client base comprising well established brands.

Prime location of commercial properties in prime business districts– The properties of the Group are located in the secondary business districts (SBD) of Hyderabad and Bengaluru. The tenants in the Bengaluru property include renowned companies from IT and other service industries. Supported by the prime locations and their competitive rentals, the Group has been able to renew the leases in a timely manner in the past. Barring the recent vacancy in its Hyderabad property after the premature exit of its tenants in Q4 FY2020, the occupancy rate in the Group's properties has remained healthy since their acquisition. Besides Hyderabad and Bengaluru, the Group also has commercial properties in Delhi and Panipat (Haryana), which have been leased out to various tenants. Although the revenue share of these properties remains low in the overall revenue pie, they provide steady revenues to the Group.

Strong financial profile – The Group has a strong financial profile, characterised by a strong capital base (net worth of Rs. 472.0 crore as on March 31, 2020), a conservative capital structure (TD/ TNW of 0.2 time and Total Outside Liabilities/ TNW of 0.4 time as on March 31, 2020) and healthy debt coverage indicators (interest coverage of 19.6 times and TD/ OPBDITA of 1.4 times in FY2020). With progressive debt repayments and limited debt-funded capital investments, there has been a consistent decline in the Group's term borrowings in the past few years. Further, availability of surplus cash accruals for part funding of working capital requirements has kept reliance on working capital borrowings range-bound, despite increasing scale of operations. Together with healthy profitability, this has facilitated an improvement in the Group's capitalisation and debt coverage metrics in recent years. Although the debt coverage metrics are expected to moderate in FY2021, following the performance pressures witnessed in H1 FY2021, the same are expected to remain healthy, supported by healthy accruals vis-à-vis repayment obligations and a strong capital base. While the liquidity position is also expected to remain adequate, it will remain contingent upon the scale of any incremental investments in real estate assets or debt-funded expansion in the textile business, which the Group may undertake in line with its track record.

Credit challenges

High export dependence with geographic concentration makes the Group's textile business vulnerable to slowdown in export markets – Abhitex derives almost its entire revenue (~99%) from the export market, mainly driven by the US market (with a ~61% share in its total revenues in FY2020), followed by the UK (~33%) market. High reliance on exports with concentrated exposure to these two markets exposes Abhitex's and the Group's revenue as well as profitability to any slowdown in these markets. ICRA, however, notes that the forex fluctuation risk remains abated by the Group's prudent policy of hedging the forex exposure.

High working capital intensity owing to high inventory holding in the textile business – Although Abhitex's inventory holding has reduced over the years from 181 days in FY2015 to 116 days in FY2020, it continues to be high, thereby exposing the profitability to volatility in raw material prices (primarily cotton yarn). Besides raw material stocking, large inventory holding also emanates from the requirement of large finished goods inventories for consignment-based dispatches in export orders. As a result, reliance on working capital borrowings in the textile segment remains high. This is corroborated from the fund-based working capital limit utilisation averaging at over 90%, of lower of sanctioned limits and drawing power, in the 15-month period ended July 2020.

Reliance on export incentives from Government and resultant vulnerability to change in policies and rates – The profitability of Abhitex, like other textile exporters, is supported by export incentives, provided by the Government of India, which accounted for ~66% of the operating profits of Abhitex in FY2020. Besides, these incentives have also been supporting growth in sales by making domestic textile manufacturers competitive in the global market. This exposes the exporters' profitability to any adverse changes in the policies.

High customer concentration risk in real estate business, short tenure of lease contracts and vacancy in Hyderabad property – The lease rental business of the Group has a high customer concentration as reflected by the top tenant occupying around 67% of the area in the Bengaluru property. Besides concentration of the Group's lease rental revenues on the top few clients, the short tenure of its lease contracts (2-5 years for ~45-50% of area) with most of its clients exposes the Group to risks associated with timely renewal of leases at favourable rentals. The risk is further accentuated by the recent vacancy in the Group's Hyderabad property with the exit of its tenants in Q4 FY2020, which has disrupted the revenue profile. Although re-leasing has been delayed by the prevailing weak business scenario, the Group is in discussions with several potential tenants.

Track record of aggressively deploying surplus accruals in the Group's non-return generating realty investments – Over the years, the Group has deployed surpluses in non-return generating real estate assets, which have constrained its return indicators. Major investments have been made in housing projects in Panipat (Haryana). Given that most of these investments are not generating any meaningful returns, they have supressed the Group's return indicators (as reflected in a consolidated ROCE of 10.9% in FY2020). Although the Group has constructed the houses on some plots and sold them recently, the scale remained very small. While the Group does not propose any further development or significant investments in these projects at present, any major incremental investments towards these projects that affect the its liquidity position and/or results in increased leveraging would remain a rating sensitivity.

Liquidity position: Adequate

The Group's liquidity position is **adequate** with healthy retained cash flow generation in the range of Rs. 50-60 crore per annum, limited firm capex plans and comfortable working capital limit utilisation averaging at ~70% of the sanctioned limits over the 15-month period ended July 2020 (averaging ~91% of the drawing power). Despite expected performance pressures in the textile as well as real estate businesses in FY2021, with limited term debt repayment obligations, limited capex plans and release of working capital following the moderation in scale of operations, the Group is likely to generate comfortable cash flows in FY2021 and maintain an adequate liquidity position. However, any aggressive/ sizeable acquisitions by the Group or deployment of funds in non-return generating assets without commensurate funding tie ups, could impact its liquidity position.

Rating sensitivities

Positive Triggers: The ratings could be upgraded if the Group achieves a sustained healthy growth in its scale of operations and profitability, supported by healthy capacity utilisation levels in the textile business as well as timely re-leasing of its real estate properties at favourable rentals, while achieving a consolidated ROCE of more than 18%. Further, efficient working capital management, which improves the Group's liquidity position could also be a positive trigger.

Negative Triggers: The ratings could be downgraded if there is a sustained pressure on the Group's revenues owing to subdued performance of the textile division, delays in re-leasing of its Hyderabad property, vacancy in other commercial properties or decline in rate of export incentives, or if there is a decline in its return indicators, with the core ROCE remaining less than 15% on a sustained basis. Additionally, the Group's ratings would be prone to a downgrade if it undertakes aggressive debt-funded investments/ acquisitions, resulting in deterioration in leverage and/ or coverage metrics on a sustained basis. Further, any stretch in the working capital cycle or deployment of funds in non-return generating investments, which affects the Group's liquidity profile, could also exert a downward pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian Textiles Industry – Fabric Making Rating Methodology for Debt Backed by Lease Rentals Consolidation and Rating Approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of various Group entities (as mentioned in Annexure-2) given the close ownership, financial and managerial linkages among them.

About the company

Established in 1993 by Mr. Avinash Paliwal and family, Abhitex International is a partnership firm engaged in designing, manufacturing and marketing textile made-ups such as terry towels, bath mats, rugs, durries and cushion covers, among other home textiles. Abhitex has three manufacturing units in Panipat (Haryana), with an installed capacity of 81 looms for terry towels and over 254 tufting machines for rugs and bath mats, besides dyeing capacity.

In FY2020, on a provisional basis, the firm reported a net profit of Rs. 18.6 crore on an operating income of Rs. 299.3 crore compared to a net profit of Rs. 17.6 crore on an operating income of Rs. 319.1 crore in the previous year.

About the Group

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's of experience in manufacturing and exporting textile products. The key operations of the Group are carried out by three entities—namely, Abhitex, POPL and PIPL. While Abhitex operates in the home textiles space, POPL and PIPL own commercial buildings.

In FY2020, on a provisional basis, the Group (on a consolidated basis) reported a net profit of Rs. 42.5 crore on an operating income of Rs. 354.2 crore compared to a net profit of Rs. 46.9 crore on an operating income of Rs. 373.9 crore in the previous year.

Key financial indicators

	Standalone			Consolidated^		
	FY2018 Audited	FY2019 Audited	FY2020 Provisional	FY2018 Audited	FY2019 Audited	FY2020 Provisional
Operating Income (OI) (Rs. crore)	294.9	319.1	299.3	346.5	373.9	354.2
PAT (Rs. crore)	16.3	17.6	18.6	49.0	46.9	42.5
OPBDIT/OI (%)	12.5%	11.7%	12.7%	22.9%	21.8%	22.2%
PAT/OI (%)	5.5%	5.5%	6.2%	14.2%	12.5%	12.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9	0.7	0.6	0.5	0.4
Total Debt/OPBDIT (times)	2.1	2.2	2.1	1.7	1.7	1.4
Interest Coverage (times)	6.7	8.3	10.1	8.7	13.1	19.6

^ Consolidated financial estimates for Abhitex, POPL and PIPL

Source: Financial statements of entities, ICRA research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest and tax

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					14-Sep-20	14-Oct-2019	30-Jul-2018	21-Jun-2017
1	Cash Credit	Long Term	95.83	NA	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Term Loan	Long Term	12.55	12.55	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
3	Unallocated Limits	Long Term	6.51	NA	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
4	Bank Guarantee	Short Term	0.11	NA	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+
5	Credit Exposure Limit	Short Term	4.00	NA	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+
6	Standby Line of Credit	Short Term	0.00	-	-	[ICRA]A1	[ICRA]A1	[ICRA]A2+

Amount in Rs. Crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	95.83	[ICRA]A (Stable)
NA	Term Loan	FY2012	NA	FY2021	2.36	[ICRA]A (Stable)
NA	Term Loan	FY2020	NA	FY2023	10.19	[ICRA]A (Stable)
NA	Unallocated Limits	NA	NA	NA	6.51	[ICRA]A (Stable)
NA	Bank Guarantee	NA	NA	NA	0.11	[ICRA]A1
NA	Credit Exposure Limit	NA	NA	NA	4.00	[ICRA]A1

Source: Abhitex

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Abhitex	100% owned by promoters and Group entities	Full Consolidation
POPL	100% owned by promoters	Full Consolidation
PIPL	100% owned by promoters and Group entities	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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