

March 04 2021

Acknit Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	7.65	2.70	[ICRA]BBB- (Stable); Reaffirmed
Fund Based – Cash Credit	49.00	52.50	[ICRA]BBB- (Stable); Reaffirmed
Non-Fund based – Bank Guarantee	1.00	1.10	[ICRA]BBB- (Stable); Reaffirmed
Non-Fund Based – Letter of Credit	7.50	4.50	[ICRA]A3; Reaffirmed
Non-Fund Based – Forward Contract Limit	2.90	1.52	[ICRA]A3; Reaffirmed
United Limits	-	5.73	[ICRA]BBB- (Stable)/ [ICRA]A3; Reaffirmed
Total	68.05	68.05	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings considers the extensive presence of Acknit Industries Limited (AIL) in the industrial safety product industry, and established relationship with its clients, generating repeat orders and reflecting its acceptable product quality. The ratings continue to derive comfort from AIL's modest level of the current order book position, providing near-term revenue visibility. The ratings favourably factor in AIL's diversified geographical presence and a steady increase in garment sales in the domestic market. ICRA notes an improvement in the company's operating margin in the current fiscal, which is likely to favourably impact the coverage indicators to some extent. However, sustainability of the same remains to be seen.

The ratings are, however, constrained by the intense competition in the industry, coupled with AIL's low bargaining power with its established clients, which limits its pricing flexibility and leads to a moderate profitability with modest debt coverage indicators. The ratings are impacted by the high working capital intensity of operations, which exerts pressure on its liquidity. Further, the ratings 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 a partial natural hedge and other formal hedging mechanisms adopted by the company. ICRA notes the sensitivity of AIL's profitability to any adverse changes in Government regulations, which could potentially impact the competitiveness of its products as well as business.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that AIL will continue to benefit from the vast experience of the promoter in the industrial safety products industry and the favourable demand outlook for the products.

Key rating drivers and their description

Credit strengths

Extensive presence in industrial safety products industry – AIL has been involved in manufacturing of industrial gloves since 1990. The company also manufactures industrial and readymade garments. The products are sold both in the domestic and international markets, with exports comprising around 69% of the revenues in FY2020. The company's established track record of operations and vast experience of the promoter mitigate the operational risk to an extent.

Established relationship with clients; diverse and flexible product mix strengthening operating profile – AIL has a reputed and established client base across industries, which generates repeat orders, highlighting the acceptable product quality and reducing the counterparty risks. Further, the company's diverse range of products, along with presence in the readymade garments, provide a cushion against adverse market conditions in any particular segment. Moreover, as of February 2021, it had an outstanding order book of around Rs. 62.00 crore, which provides adequate near-term revenue visibility.

Steady increase in readymade garment sales – AIL's revenues from readymade garments have consistently increased to Rs. 62.64 crore in FY2020 from Rs. 20.28 crore in FY2014, supported by a healthy inflow of demand from reputed retail customers including Lifestyle International Pvt. Ltd., Arvind Lifestyle Brand Ltd. etc. However, there may be a decline in revenue from the garments division in the current fiscal due to disruption in operations caused by the Covid-19 pandemic. Overall, the diversification into the garment division has helped AIL reduce its segmental concentration risk to an extent. Nevertheless, margins from this segment continue to remain low. ICRA notes an improvement in the operating margin of the company in the current fiscal, which is likely to favourably impact the coverage indicators to some extent, however, sustainability of the same remains to be seen.

Diversified geographical presence – AIL's geographical presence remains fairly diversified with sales made across the US, Europe, Middle East countries, etc. However, the export revenues for AIL remained geographically concentrated as around 64% of the total export sales in FY2020 was derived from Germany and the US.

Credit challenges

Stiff competition in safety wear industry – Intense competition from organised and unorganised players in the international safety wear market on account of the low value-accretive nature of products and limited bargaining power against large overseas clientele limit pricing flexibility. This keeps margins at a moderate level despite export incentives received from the Government.

High working capital intensity of operations – The company's working capital intensity of operations remains 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 improved to 37% in FY2020 compared to 44% in FY2020, however, it continued to remain high, exerting pressure on its liquidity.

Exposed to foreign exchange rate fluctuation and regulatory risks – The company generates a significant portion (69% in FY2020) of its revenue from export sales, which exposes AIL to foreign exchange rate fluctuation risk. However, the foreign currency exposure is mainly hedged by the forward cover. In addition, import of some of the raw materials provides a partial natural hedge. This mitigates the foreign exchange rate fluctuation risk to a large extent. Moreover, as an exporter, AIL enjoys export incentives and interest subvention under various schemes run by the Government of India (GoI). Accordingly, its revenues and profitability remain susceptible to regulatory risks such as changes in duty structure, rate of export incentives, etc, which could potentially impact the competitiveness of its products as well as the business.

Liquidity position: Adequate

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 has undertaken capex (funded by a mix of debt and internal accruals) for infrastructure upgradation and capacity expansion in FY2020 and in the current fiscal. However, the cash flow from operations would be sufficient to meet its debt service obligations. Also, the undrawn working capital limits would continue to provide additional support to the liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade AIL's ratings if the company is able to scale up its operations substantially while improving profitability, ensuring better working capital management and maintaining the liquidity profile.

Negative factors – Pressure on ALL’s ratings could arise if the company reports lower-than-expected turnover and profitability. Any major debt-funded capital expenditure, deterioration in working capital cycle and/ or a decline in profit margins, which could adversely impact the company’s liquidity position, may also result in ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the company’s standalone financial statements

About the company

ALL 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 company’s name was changed to Acknit Industries Limited in 2007. It gradually diversified its product range to include leather, coated and dotted industrial gloves, as well as protective industrial garments and children’s garments. Additionally, the company operates a windmill (1.25 MW) in Dhule, Maharashtra.

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

Key financial indicators (audited)

ALL Standalone	FY2019	FY2020	9M FY2021	9M FY2020
Operating Income (Rs. crore)	172.01	169.92	117.49	126.35
Adjusted Operating Income (Rs. crore) *	176.90	171.10	119.36	128.44
PAT (Rs. crore)	4.68	4.37	4.25	3.39
OPBDIT/OI (%)	4.95%	6.81%	6.86%	5.96%
Adjusted OPBDIT/OI (%) *	7.58%	7.46%	8.32%	7.48%
PAT/OI (%)	2.72%	2.57%	3.62%	2.68%
Total Outside Liabilities/Tangible Net Worth (times)	1.76	1.45	-	-
Total Debt/OPBDIT (times)	6.87	4.08	-	-
Adjusted Total Debt/OPBDIT (times)*	4.37	3.71	-	-
Interest Coverage (times)	1.58	2.36	3.26	2.11
Adjusted Interest Coverage (times)*	2.48	2.60	4.03	2.70

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

*The non-operating income/(expenses) due to foreign exchange gain/(loss) have been considered in the operating income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Mar 4, 2021	Feb 6, 2020	Feb 25, 2019	Mar 26, 2018
1	Term Loan	Long Term	2.70	2.67	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Cash Credit	Long Term	52.50	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
3	Bank Guarantee	Long Term	1.10	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
4	Letter of Credit	Short Term	4.50	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
5	Forward Contract	Short Term	1.52	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
6	United Limits	Long Term / Short Term	5.73	-	[ICRA]BBB-(Stable)/ [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	April 2020	-	December 2025	2.70	[ICRA]BBB- (Stable)
NA	Cash Credit	-	-	-	52.50	[ICRA]BBB- (Stable)
NA	Bank Guarantee	-	-	-	1.10	[ICRA]BBB- (Stable)
NA	Letter of Credit	-	-	-	4.50	[ICRA]A3
NA	Forward Contract	-	-	-	1.52	[ICRA]A3
NA	Untied Limits	-	-	-	5.73	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

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

Mr. Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Mr. Sandipan Kumar Das
+91 33 7150 1190
sandipan.das@icraindia.com

Mr. Akash Gupta
+91 33 7150 1127
akash.gupta@icraindia.com

RELATIONSHIP CONTACT

Mr. 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

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



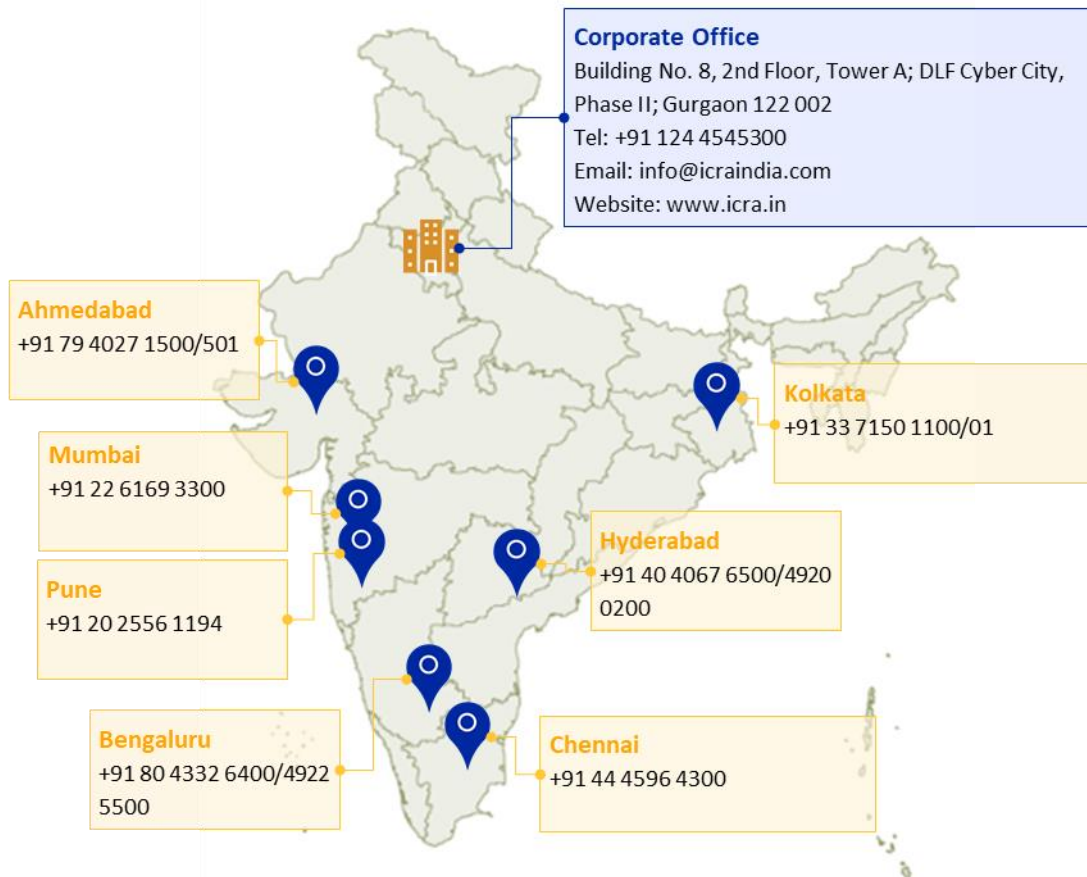
Registered Office

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

Tel: +91 11 23357940-50



Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.