

March 03, 2022

Acknit Industries Limited: Ratings upgraded to [ICRA]BBB (Stable)/ [ICRA]A3+; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Working Capital [^]	52.50	60.00	[ICRA]BBB (Stable), upgraded from [ICRA]BBB- (Stable)
Fund-based Limits – Term Loan	2.70	6.86	[ICRA]BBB (Stable), upgraded from [ICRA]BBB- (Stable)
Non-fund Based Limits – Bank Guarantee	1.10	1.30	[ICRA]BBB (Stable), upgraded from [ICRA]BBB- (Stable)
Non-fund Based Limits – Letter of Credit/ Forward Contract	6.02	6.02	[ICRA]A3+, upgraded from [ICRA]A3
Unallocated Limits	5.73	0.87	[ICRA]BBB (Stable)/ [ICRA]A3+, upgraded from [ICRA]BBB- (Stable)/ [ICRA]A3
Total	68.05	75.05	

* Instrument details are provided in Annexure-1

[^] One way interchangeable of Rs. 5.00 crore from fund-based working capital to letter of credit

Rationale

The upward revision in the ratings of Acknit Industries Limited (AIL) considers the likely sizeable increase in the scale of operations in the current fiscal, given the company has already posted a revenue growth of 27% in 9M FY2022 on a YoY basis, which is likely to improve its overall profits and cash accruals from business compared to the previous fiscal. The ratings also take into account the established market position of the company in the industrial safety product industry, and long relationship with its clients, generating repeat orders and reflecting its acceptable product quality. The ratings also derive comfort from AIL's diverse and flexible product mix, which extend competitive advantage, and its diversified geographical presence.

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 exerts pressure on margins. The ratings are also impacted by the high working capital intensity of operations on the back of high receivables and inventory holding, 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 the company will be able to maintain its revenue growth, while maintaining the profitability levels, given its established position as well as 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

Established position in industrial safety products industry – AIL has been manufacturing industrial gloves since 1990. The company also manufactures industrial and readymade garments. AIL has been manufacturing industrial safety shoes since FY2021. The products are sold both in the domestic and international markets, with exports comprising around 70% of the

revenues in FY2021. The company's established track record of operations and vast experience of the promoter mitigate the operational risk to an extent.

Diverse and flexible product mix lead to competitive advantages – AIL has a reputed and established client base across industries, which generates repeat orders, highlighting the acceptable product quality and reducing the counterparty risk. The client concentration has remained moderate with the top 10 clients accounting for 50-60% of the company's revenue over the past few years. Further, the company has a diversified product portfolio consisting of leather gloves, cotton and synthetic gloves, coated gloves, industrial safety garments, apparels, industrial safety shoes, which are used for multiple purposes. 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.

Likely increase in the scale of operations in the current fiscal – The operating income of the company remained almost stagnant over the past few years. In 9M FY2022, the company reported a revenue of Rs. 148.7 crore against Rs. 117.5 crore in the similar corresponding period in the previous fiscal, owing to an increase in the sales volume of leather gloves, supported by an improvement in realisation of other products. ICRA expects that in spite of a decline in the overall volume of sales of various products, a sharp rise in realisation and increased revenue generated from safety shoes are likely to result in a growth of more than 15% in its top line in FY2022 compared to FY2021. In view of an increase in its scale of operations, the overall profits and cash accruals from the business are also likely to improve in FY2022 compared to the previous year.

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 46% of the total sales in FY2021 was derived from Germany and the US.

Credit challenges

Intense competition exerts pressure on margins – 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 under pressure despite export incentives received from the Government of India (GoI).

Exposed to foreign exchange rate fluctuation and regulatory risks – AIL generates a significant portion (70% in FY2021) of its revenue from export sales, which exposes it 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 GOI. Accordingly, its revenues and profitability remain susceptible to the 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.

Significant receivables and stocking requirements likely to keep the working capital intensity high – Significant receivables and stocking requirements keep the company's working capital intensity of operations at a high level, as reflected by the net working capital relative to the operating income of 39% in FY2021, which in turn exert pressure on its liquidity position. AIL's working capital intensity of operations is likely to remain at an elevated level, going forward.

Liquidity position: Adequate

The company generated positive cash flow from operations in the past two years. However, increased working capital requirement is likely to lead to negative cash flow from operations during the current fiscal. Nevertheless, the same is likely to remain adequate, going forward. The company has also demonstrated need-based funding in the form of unsecured loan from the directors and body corporate. The overall fund-based working capital utilisation of the company stood at a moderate level of around 52% during the last 15 months. In view of limited capital expenditure plan compared to its current balance sheet size, undrawn working capital limits and sustainability of funding support from the promoters, ICRA expects the overall liquidity position of the company to remain adequate, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is a significant increase in the revenue and profitability of the company on a sustained basis. Specific credit metric that may trigger a rating upgrade include a total debt relative to OPBDIT of less than 3.0 times on a sustained basis.

Negative factors – ICRA may downgrade the ratings in case of any major debt-funded capital expenditure, a deterioration in the working capital cycle and/ or a decline in margins, which could adversely impact the company’s liquidity position. Specific credit metric that may trigger ratings downgrade includes an interest coverage of less than 3.0 times on a sustained basis.

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 standalone financial statements of the company

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 and safety shoes. Additionally, the company operates a windmill (1.25 MW) in Dhule, Maharashtra.

Key financial indicators

	FY2020 (Audited)	FY2021 (Audited)	9M FY2022 (Unaudited)	9M FY2021 (Unaudited)
Operating Income (Rs. crore)	169.9	168.5	148.7	117.5
Adjusted Operating Income (Rs. crore)*	171.1	171.8	152.6	119.4
PAT (Rs. crore)	4.4	5.8	5.6	4.2
OPBDIT/OI (%)	6.8%	6.2%	5.2%	6.9%
Adjusted OPBDIT/OI (%)*	7.5%	8.0%	7.6%	8.3%
PAT/OI (%)	2.6%	3.5%	3.8%	3.6%
Total Outside Liabilities/Tangible Net Worth (times)	48.7	54.2	-	-
Total Debt/OPBDIT (times)	4.1	4.4	-	-
Adjusted Total Debt/OPBDIT (times)*	3.7	3.3	-	-
Interest Coverage (times)	2.4	3.0	4.2	3.3
Adjusted Interest Coverage (times)*	2.6	4.0	6.4	4.0

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

Source: Acknit Industries Limited

*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 (FY2022)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				Mar 3, 2022	Mar 4, 2021	Feb 6, 2020	Feb 25, 2019	
1 Working Capital [^]	Long Term	60.00	34.51	[ICRA]BBB (Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	
2 Term Loan	Long Term	6.86	7.71	[ICRA]BBB (Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	
3 Bank Guarantee	Long Term	1.30	0.69	[ICRA]BBB (Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	
4 Letter of Credit	Short Term	4.50	2.72	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	
5 Forward Contract	Short Term	1.52	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	
6 Unallocated Limits	Long Term/Short Term	0.87	NA	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	

Source: Acknit Industries Limited

[^] One way interchangeable of Rs. 5.00 crore from fund-based working capital to letter of credit

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Working Capital	Simple
Long-term Fund-based – Term Loan	Simple
Long-term Non-Fund-based – Working Capital	Very Simple
Short-term Non-Fund-based – Working Capital	Very Simple
Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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
	CC/ WCL/ EPC/ PCFC/ FBD/ EBR [^]	-	-	-	45.00	[ICRA]BBB (Stable)
	CC/ PC/ PCFC/ FBP/ FBD/ FCBD/ FCNRB Loan [^]	-	-	-	15.00	[ICRA]BBB (Stable)
	WCTL – GECL 1	Mar 2021	-	Feb 2025	5.49	[ICRA]BBB (Stable)
	WCTL – GECL 2	Oct 2021	-	Oct 2025	1.37	[ICRA]BBB (Stable)
	Bank Guarantee 1	-	-	-	0.90	[ICRA]BBB (Stable)
	Bank Guarantee 2	-	-	-	0.40	[ICRA]BBB (Stable)
	Letter of Credit 1	-	-	-	2.50	[ICRA]A3+
	Letter of Credit 2	-	-	-	2.00	[ICRA]A3+
	Forward Contract	-	-	-	1.52	[ICRA]A3+
	Unallocated Limits	-	-	-	0.87	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: Acknit Industries Limited

[^] One way interchangeable of Rs. 5.00 crore from fund-based working capital to letter of credit

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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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.

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.

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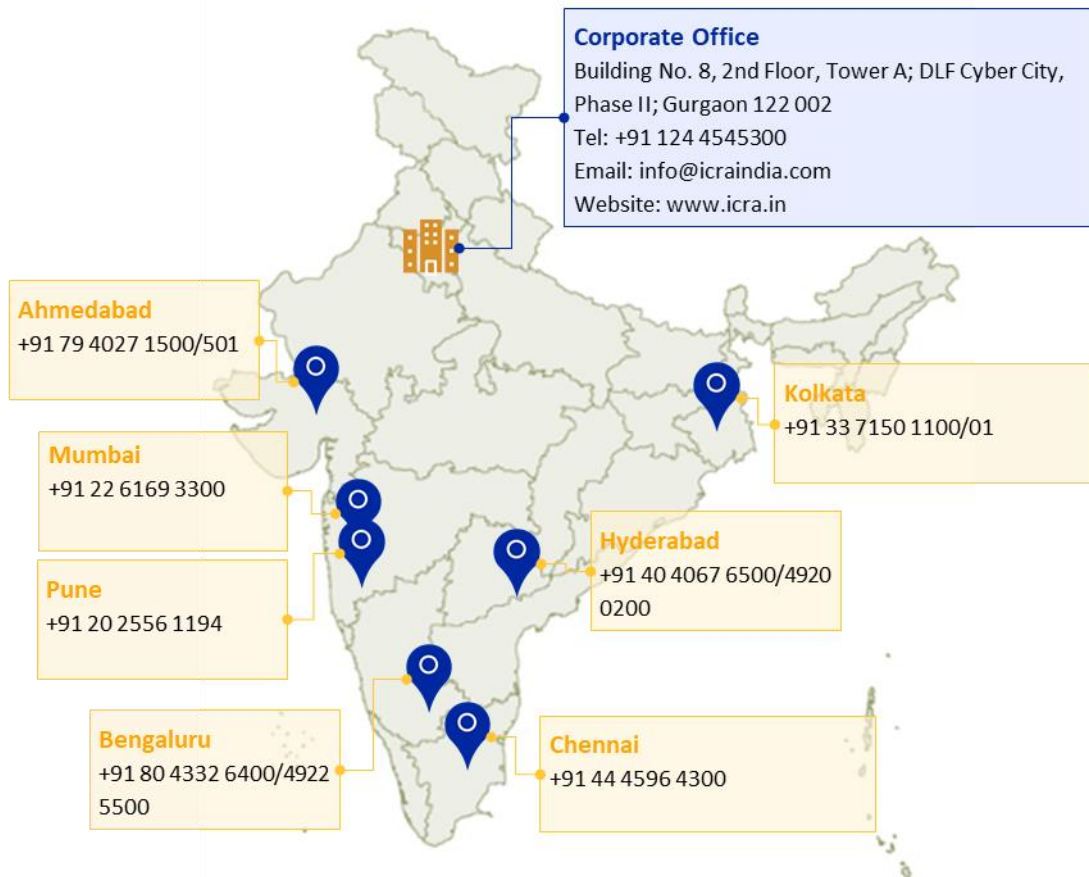
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