

February 06, 2020

## 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	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
<b>Total</b>	<b>68.05</b>	<b>68.05</b>	

\*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 the steady increase in garment sales in the domestic market.

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 moderate profitability with modest debt coverage indicators. The ratings are impacted by the high working capital intensity of operations, which exerts pressure on liquidity and leads to considerable working capital borrowings, resulting into a leveraged capital structure. 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 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 manufactures industrial and readymade garments. The products are sold both in the domestic and export markets, with exports comprising 73% of the revenues in FY2019. 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 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. Moreover, as on January 2020, it had an outstanding order book of around Rs. 52.00 crore, which provides adequate near-term revenue visibility.

**Steady increase in readymade garment sales** – AIL's revenue from readymade garments have consistently increased to Rs. 51.87 crore in FY2019 from Rs. 20.28 crore in FY2014, supported by healthy inflow of demand from reputed retail customers including Lifestyle International Pvt Ltd, Arvind Lifestyle Brand Ltd, etc. This has helped AIL reduce its segmental concentration risk to an extent. Nevertheless, margins from this segment continue to remain low.

**Diversified geographical presence** – AIL's geographical presence remains fairly diversified with sales being made across the USA, Europe, Middle-Eastern countries, etc. However, the export revenues for AIL remained geographically concentrated as around 69% of the total export sales in FY2019 were derived from Germany and the USA.

### 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.

**Leveraged capital structure** – The company's capital structure remained leveraged, as depicted by a gearing of 1.30 times as on March 31, 2019 (1.32 times as on March 31, 2018). Moderate profitability and high debt levels result in moderate level of coverage indicators.

**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 stood at a high level of 44% in FY2019, exerting pressure on its liquidity and resulting in high working capital borrowings.

**Exposed to foreign exchange rate fluctuation and regulatory risks** – The company generates a significant portion (73% in FY2019) 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 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 is likely to undertake capex (funded by a mix of debt and internal accruals) in the near term for infrastructure upgradation and capacity expansion, which is estimated to increase its long-term debt repayment obligations. However, the cash accruals from the business would be sufficient to meet the repayment obligations.

### Rating sensitivities

**Positive triggers** – ICRA could upgrade AIL's ratings if the company is able to scale up its operations substantially, while improving profitability along with better working capital management. Specific credit metrics that could lead to an upgrade of AIL's rating include adjusted OPBITDA/ Interest cost, i.e., adjusted interest coverage above 3.50 times on a sustained basis.

**Negative triggers** – Increase in working capital intensity and/ or decline in profit margins might lead to a rating downgrade. Negative pressure on the rating may also arise as a result of deterioration in adjusted interest coverage from the current level.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the entity.

### About the company

AIL 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.

AIL 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

	<b>FY2018 (Audited)</b>	<b>FY2019 (Audited)</b>	<b>H1 FY2020 (Unaudited)</b>	<b>H1 FY2019 (Unaudited)</b>
Operating Income (Rs. crore)	161.06	172.01	85.56	77.18
Adjusted Operating Income (Rs. crore) *	164.62	176.90	87.17	77.73
PAT (Rs. crore)	2.97	4.68	2.20	2.11
OPBDIT/OI (%)	5.07%	4.95%	5.48%	7.26%
Adjusted OPBDIT/OI (%) *	7.13%	7.58%	7.22%	7.91%
RoCE (%)	10.42%	11.28%	-	-
Total Outside Liabilities/Tangible Net Worth (times)	1.86	1.76	1.67	1.77
Total Debt/OPBDIT (times)	6.69	6.87	5.95	4.53
Adjusted Total Debt/OPBDIT (times)*	4.66	4.37	4.43	4.13
Interest Coverage (times)	1.46	1.58	1.88	2.09
Adjusted Interest Coverage (times)*	2.10	2.48	2.52	2.29
DSCR	1.63	1.70	-	-

\*The non-operating income/expenses due to foreign exchange fluctuations 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 (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding March 31, 2019	Rating	FY2019	FY2018	FY2017
					6-Feb-2020	25- Feb -2019	26-Mar-2018	21-Mar-2017
1	Term Loan	Long Term	7.65	2.61	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)
2	Cash Credit	Long Term	49.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)
3	Bank Guarantee	Long Term	1.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)
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

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](http://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	March 2019	-	June 2025	7.65	[ICRA]BBB- (Stable)
NA	Cash Credit	-	-	-	49.00	[ICRA]BBB- (Stable)
NA	Bank Guarantee	-	-	-	1.00	[ICRA]BBB- (Stable)
NA	Letter of Credit	-	-	-	7.50	[ICRA]A3
NA	Forward Contract	-	-	-	2.90	[ICRA]A3

Source:AIL

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

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### About ICRA Limited:

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