

## Popees Baby Care Products Pvt Ltd

March 14, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund based facilities	9.75	9.75	[ICRA]BB+ (Stable); Upgraded from [ICRA]BB(Stable)
Long-term, Term Loans	7.85	6.56	[ICRA]BB+ (Stable); Upgraded from [ICRA]BB(Stable)
Long-term, Unallocated	-	1.29	[ICRA]BB+ (Stable); Upgraded from [ICRA]BB(Stable)
Short-term, Non-fund based facilities*	(3.00)	(3.00)	[ICRA]A4+; reaffirmed
<b>Total</b>	<b>17.60</b>	<b>17.60</b>	

\*Sub-limit of fund-based facilities

### Rationale

For arriving at the ratings, ICRA has considered a consolidated view of Popees Baby Care Products Pvt Ltd along with its associate concerns – Aibel Apparels and Shre International, since they operate in the same line of business, have operational linkages and share common promoters and management. All three concerns together are referred to as the Group.

The ratings upgrade positively notes the considerable improvement in the Group's scale in FY2018 and 9M FY2019, backed by healthy demand for its products from apparel retails across the Kerala region. Further, the rating upgrade factors in the established market position and the strong brand recall of the Group's products, 'Popees', 'Pomees', especially in the Kerala region. The ratings continue to draw comfort from the considerable experience of the management spanning over a decade in the domestic apparel industry.

The ratings are, however, constrained by Popees' reduction in operating margins in FY2018 and 9M FY2019 amid higher debt levels, resulting in deterioration of coverage and debt protection metrics. The ratings are also constrained by high utilisation of its working capital borrowings and sizeable debt repayment during the next few years, which limit its financial flexibility. The ratings are further constrained by the high working capital intensity, driven by high receivables and inventory position. These apart, the ratings take into consideration the intense competition from unorganised and established players in the kids apparel manufacturing industry and the high geographical concentration risk with a major portion of the revenues derived from Kerala.

### Outlook: Stable

The Stable outlook reflects ICRA's expectation that Popees Baby Care Products Limited will benefit from the established market position and strong brand recall of the Group's products, supported by extensive experience of its promoters in manufacturing of kids and baby apparels. The outlook may be revised to Positive if considerable growth in revenue and profitability, and better accruals, strengthen the financial risk profile or the liquidity position improves through considerable equity infusion or receipt of franchise deposits. The outlook may be revised to Negative if the profitability declines or there is further weakening in the capital structure caused by increased working capital requirements or any large debt-funded capital expenditure beyond ICRA's estimates.

## Key rating drivers

### Credit strengths

**Extensive experience and operational track record of the management** – The company has experience of over a decade, having begun its operations in 2005, in the apparel manufacturing business. Its operational benefit primarily comes from the long experience of the key management personnel, coupled with established relationship with the customers and a professional workforce to support its operations.

**Strong growth in scale in FY2018, expected to continue in FY2019** – On the back of favourable demand and repeat orders from its existing customers, the Group's operating income (OI) grew at a strong rate of over ~40% in FY2018. The trend is likely to continue in the current year due to increased demand from its primary market – Kerala – on the back of growing focus towards branded apparels that has helped the company garner additional customers.

**Established relationship with customers; low customer concentration risk** – The company has an established customer base with renowned clients based out of Kerala and Tamil Nadu. The long relationship with most of its major customers lends stability to volumes. Popees has a large customer base of over 5,300 retailers, resulting in low customer concentration with the top-10 customers contributing to less than 20% of the total sales in FY2017.

**Established brand image of the Group's products and strong distribution channels** – The Group benefits from its positioning as an economy/mid-economy apparel brand with strong brand recall, especially in and around Kerala. Over the years, the Group has developed a strong working relationship with over 5,300 retailers spread across Kerala, Tamil Nadu and Karnataka.

### Credit challenges

**Reduced operating margins and elevated debt levels during FY2018 and 9MFY2019** – The Group's operating profitability reduced considerably in FY2018 and 9M FY2019 due to increased selling and employee expense. With the Popees involved in extensive sales push, selling expense, which includes business promotion expense, sales discounts to retailers and salesman commission, increased considerably during FY2018 and 9M FY2019. This along with elevated debt levels to fund the capex and the increasing scale of operations for Popees have resulted in deterioration of debt protection metrics such as Debt/OPBITDA and DSCR to 4.5 times and 1.0 times, respectively in 9M FY2019 against 3.7 times and 1.7 times in FY2017.

**Stretched liquidity position**– Due to its increasing scale of operations, the company's current fund-based limit is insufficient to meet its higher working capital requirements. Further, with large principal repayments scheduled for the next few fiscals, the Group's liquidity position would remain stretched. However, expected equity infusion, fund infusion through security deposit via franchise model and enhancement in working capital is likely to alleviate the risk to an extent.

**High working capital intensity on account of high receivables and inventory period** – The Group's working capital intensity remained high at 32.2% in FY2018 on the back of elevated inventory position. Further, the receivables position remained high with the company offering high credit period to its customers.

**High geographical concentration risk, intense competition in the industry** – Sales in FY2018 and 9M FY2019 were mainly concentrated in Kerala (contributing over 85% to the sales) followed by Karnataka and Tamil Nadu. Thus, the company faces high geographical concentration risk. Additionally, a highly fragmented textile industry limits pricing flexibility and bargaining power with the customers.

## Liquidity position

The company's liquidity position has deteriorated in the recent fiscals mainly due to its high working capital utilisation and huge capital expenditure, resulting in large debt repayments. High working capital requirements to fund the increasing scale of its operations further deteriorated its liquidity profile. Nonetheless, Popees Baby Care Products Pvt Ltd is in the process of getting its current working capital limits enhanced from Rs. 9.75 crore to Rs. 15.0 crore, which may improve its liquidity position, to an extent, in the near term.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Indian Textiles Industry – Apparels</a> <a href="#">Financial Consolidation and Rating Approach</a>
Parent/Group Support	NA
Consolidation / Standalone	NA

## About the company

Established as a proprietorship concern in 2005, Popees Baby Care Products was converted into a private limited company in September 2017. The company manufactures readymade garments mainly for new-born babies and children under six years, which are marketed under its own brand, Popees. The company's manufacturing facility is in Thiruvalli at Malapuram district of Kerala and warehouses in Tamil Nadu, Andhra Pradesh and Karnataka to support its operations. The company is promoted by Mr. Shaju Thomas and his wife Mrs. Lintu P Jose, who have extensive experience in the apparel manufacturing industry.

The Popees Group consists of several entities operating in the textile industry, manufacturing garments. Other entities under the Popees Group include M/s Aibel Apparels, a proprietorship business run by Mrs. Linta P Jose and M/s Shre International, a partnership firm of Mr. Shaju Thomas and Mrs. Linta P Jose, all involved in related businesses.

## Key financial indicators (Consolidated)

	FY2017 (Audited)	FY2018 (Audited)
Operating Income (Rs. crore)	52.2	73.3
PAT (Rs. crore)	1.2	1.9
OPBDIT/ OI (%)	10.3%	9.4%
RoCE (%)	26.2%	14.0%
Total Debt/ TNW (times)	1.4	1.6
Total Debt/ OPBDIT (times)	3.5	4.4
Interest Coverage (times)	1.9	2.0

## Key financial indicators (Standalone)

	FY2017 (Audited)	FY2018 (Audited)
Operating Income (Rs. crore)	33.1	50.0
PAT (Rs. crore)	0.7	1.2
OPBDIT/ OI (%)	10.1%	8.4%
RoCE (%)	15.6%	12.8%
Total Debt/ TNW (times)	1.2	1.2
Total Debt/ OPBDIT (times)	3.7	4.4
Interest Coverage (times)	1.7	2.0

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for last three years:

	Current Rating (FY2019)			Chronology of Rating History for the past 3 years				
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on December 2018 (Rs. crore)	Date & Rating in FY2019 March 2019	Date & Rating in FY2018 March 2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Fund-based facilitates	Long-Term	9.75	9.47	[ICRA]BB+ (Stable)	[ICRA]BB (stable)	-	-
2	Term Loan	Long-Term	6.56	6.56	[ICRA]BB+ (Stable)	[ICRA]BB (stable)	-	-
3	Unallocated	Long-Term	1.29	1.29	[ICRA]BB+ (Stable)	-	-	-
4	Non-fund based facilitates	Short-Term	(3.00)	(3.00)	[ICRA]A4+	[ICRA]A4+	-	-

## 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	Fund-based facilitates	-	NA	-	9.75	[ICRA]BB+ (Stable)
NA	Term Loan	FY2016	NA	FY2026	6.56	[ICRA]BB+ (Stable)
NA	Unallocated	-	-	-	1.29	[ICRA]BB+ (Stable)
NA	Non-fund based facilitates	-	-	-	(3.00)	[ICRA]A4+

Source: Popees Baby Care Products Pvt Ltd

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