

July 11, 2019

## Aghara Knitwear Pvt. Ltd.: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	5.01	2.90	[ICRA]B+ (Stable); reaffirmed
Fund-based Cash Credit	1.50	3.00	[ICRA]B+ (Stable); reaffirmed
Non-fund Based Bank Guarantee	0.15	0.15	[ICRA]A4; reaffirmed
Unallocated limits	0.04	0.65	[ICRA]B+ (Stable)/A4; reaffirmed
<b>Total</b>	<b>6.70</b>	<b>6.70</b>	

\*Instrument details is attached in Annexure-1

### Rationale

The rating reaffirmation remains constrained by the weak financial risk profile, marked by moderation in operating profitability, leveraged capital structure and weak coverage indicators. ICRA also notes the intense competition because of the fragmented structure of the knitting manufacturing industry and the exposure of the company's profitability to volatility in raw material prices.

The ratings, however, continue to favourably factor in the company's proximity to a major cotton manufacturing region and its entitlement to various fiscal benefits, which will support the liquidity.

### Outlook: Stable

ICRA believes that AKPL will continue to benefit from the location advantage of the plant. The outlook may be revised to Positive if substantial growth in revenue and profitability leads to higher-than-expected cash accrual, which along with prudent working capital management, strengthens the financial risk profile. The outlook may be revised to Negative if substantial reduction in scale and profitability puts further pressure on cash accruals needed to support debt repayment, or if any major debt-funded capex or stretch in working capital cycle weakens the company's liquidity position.

### Key rating drivers

#### Credit strengths

**Favourable location of plant** – The proximity of AKPL's unit to the Morbi region of Gujarat enables easy access to cotton yarn, its chief raw material, and also saves on the transportation cost.

**Beneficiary of various fiscal benefits** - AKPL is a beneficiary of various fiscal schemes under the Technology Up-gradation Fund Scheme (TUFS) and textile policy of the Gujarat government. These benefits such as capital subsidy and interest subsidy, and indirect tax refund towards eligible fixed assets over a period of eight years are expected to support the profitability.

## Credit challenges

**Modest scale of operations; moderation in operating margin; leveraged capital structure and average coverage indicators** – Even though AKPL’s operating income increased to Rs. 32.5 crore in FY2019 (provisional financials) from Rs. 21.7 crore in FY2018, the scale of operations continues to remain modest. The operating margin moderated by 220 basis points to 3.6% in FY2019 (provisional financials) from 5.8% in FY2018 because of an increase in raw material price, which the company was unable to pass on to the end consumers. AKPL’s capital structure continues to remain leveraged; the gearing was 2.1 times in FY2019 compared to 1.9 times in FY2018. Its coverage indicators too remain weak; the interest coverage was 2.5 times, TD/OBDITA was 5.7 times, DSCR was 0.9 times and NCA/TD was 11% in FY2019.

**Highly fragmented and competitive industry structure** – The fabric manufacturing industry is very competitive because government tax and other financial incentives draw many players. This in turn has made the industry fragmented, consequently putting pricing pressures on its players.

**Vulnerability to raw material price fluctuations** – Raw material cost accounts for ~85% of the total manufacturing cost of the cotton fabric. Cotton yarn, being an agro-based commodity, is exposed to cotton price fluctuation. Hence, the profitability of AKPL is exposed to raw material price fluctuation.

## Liquidity position:

In FY2019, AKPL reported positive fund flow from operations of Rs. 0.70 crore. However, higher incremental working capital requirement and schedule debt repayment resulted in negative free cash flows. The shortfall in repayment of term loan was funded through fresh infusion of equity and unsecured loans. The company’s overall liquidity position is expected to remain tight given the high repayment burden of Rs. 0.83 crore each from FY2020 to FY2022; however, the expected receipt of subsidies will support the liquidity position. Hence, timely support from promoters through equity infusion/unsecured loans would continue to remain critical.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating methodology for Indian Textile Industry - Fabric</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on the standalone financial statements of the issuer.

## About the firm:

The Gujarat-based Aghara Knitwear Pvt. Ltd. (AKPL), established in June 2015 as a greenfield project, manufactures knitted fabric from cotton yarn. It commenced commercial operations in April 2016. The manufacturing facility is equipped with 15 knitting machines, with an installed capacity of 2228 MTPA. Further, the company plans to undertake a capex of Rs. 0.70 crore to install three knitting machines for capacity expansion. The company is managed by the Aghara family.

### Key financial indicators (audited):

	FY2018	FY2019*
Operating Income (Rs. crore)	21.7	32.5
PAT (Rs. crore)	0.1	0.1
OPBDIT/ OI (%)	5.8%	3.6%
RoCE (%)	8.5%	6.4%
Total Debt/ TNW (times)	1.9	2.1
Total Debt/ OPBDIT (times)	4.4	5.7
Interest coverage (times)	2.5	2.5

\* Provisional numbers

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

**Any other information: None**

### Rating history for last three years:

Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2019 (Rs. crore)	Date & Rating July 2019	Date & Rating in FY2019 August 2018	Date & Rating in FY2018 Jul 2017	Date & Rating in FY2017 Jul 2016
Term Loan	Long	2.90	2.55	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B (Stable)
	Term						
Cash Credit	Long	3.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B (Stable)
	Term						
Bank Guarantee	Short	0.15	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
	Term						
Unallocated Limits	Long	0.65	-	[ICRA]B+ (Stable)/A4	[ICRA]B+ (Stable)/A4	[ICRA]B+ (Stable)/A4	[ICRA]B (Stable)/A4
	Term/						
	Short Term						

### 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	FY2018	NA	FY2026	2.90	[ICRA]B+ (Stable)
NA	Cash Credit	NA	NA	NA	3.00	[ICRA]B+ (Stable)
NA	Bank Guarantee	NA	NA	NA	0.15	[ICRA]A4
NA	Unallocated Limits	NA	NA	NA	0.65	[ICRA]B+ (Stable)/ A4

Source: Aghara Knitwear Pvt. Ltd.

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