

Press Release

Prateek Apparels Pvt Ltd (PAPL)

December 26, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
1	Long Term Bank Facilities	82.43	IVR BB- /Stable (IVR Double B Minus with Stable Outlook)
2	Short Term bank Facilities	9.00	IVR A4+ (IVR A four plus)
	Total	91.43	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Prateek Apparels Pvt Ltd (PAPL) derives comfort from extensive experience of the promoters in the apparel industry, reputed customer profile albeit concentration risk, established arrangement with suppliers for raw materials and comfortable capital structure with no long term debt. The rating also considers growth in revenue in FY19. However, the rating strengths are partially offset by its presence in a highly competitive industry, thin profit margin and below average debt protection metrics and working capital intensive nature of operations.

Key Rating Sensitivities

Upward Factor:

- Growth in scale of operations with improvement in profitability on a sustained basis
- Sustenance of the capital structure
- Improvement in cash conversion cycle

Downward factor:

- Further elongation of operating cycle
- Moderation in the capital structure with deterioration in overall gearing to more than 2x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of the promoters in the apparel industry**

PAPL was promoted by Mr. Pradeep Agarwal (Managing Director) having an experience of around two decades in the garment manufacturing industry. He looks after the overall business

operations of the company. He is ably supported by Mr Sanjay Dalmia, CEO, who has an experience of more than two decades in garment manufacturing industry. The company is benefited by professional management, who has helped the company to maintain healthy and long-standing relationship with its existing and prospective customers.

- **Reputed customer profile albeit concentrated**

PAPL's customer profile consists of well-known clients such as Brand Studio Lifestyle Private Limited, Brand Factory (Future Group), Aditya Birla Fashion and Retail Limited, Mynta Jabong India Private Limited, etc. There is a customer concentration risk as its top 5 customers contribute ~99% of total revenue in FY19. Further, Brand Studio Lifestyle Private Limited, alone is contributing ~67% of the total operating income during FY19.

- **Established arrangement with suppliers for raw materials**

PAPL has established supply arrangements with its vendors with an average of over 8 years of association with most of them. Major raw materials include all types of fabrics, lace, labels, buttons, etc. for which the company is having established suppliers with long term business relation. The company manages to avail credit of about three-four months from its customer nominated suppliers (mainly from wholesalers) which aided to the working capital flexibility.

- **Comfortable capital structure with no long term debt**

The company has comfortable capital structure marked by a healthy net worth base of Rs.112.17 crore with no long term debt and overall gearing of 0.88x as on March 31,2019 (0.81x as on March 31, 2018). Moreover, the TOL/TNW also stood comfortable at 1.88x as on March 31, 2019.

Key Rating Weaknesses

- **Presence in a highly competitive industry**

The textile industry in India is highly fragmented with presence of many established players in the market. The company has to compete with established brands in the market. Further, there are several unorganised players in the industry. As a result, it has to work with high pressure on margins due to the highly competitive nature of the industry.

- **Thin profit margin and below average debt protection metrics though growth in revenue exhibited in FY19**

The total operating income of the company witnessed an erratic trend over the last three years; the same registered a y-o-y growth of ~63% in FY19 driven by higher demand of its

manufactured apparel backed by higher capacity utilization of (~93% in FY19 as compared to ~79% in FY18). However, despite increase in scale of operations and EBIDTA level, the EBIDTA margin of the company witnessed a declining trend over the last three years; the same declined by 230 bps to 4.11% in FY19 due to higher increase in cost of raw materials vis-à-vis operating income and compromise to attain higher volume sales coupled with increase in relatively low margin trading sales. Further, the PAT margin of the company though improved by 14 bps y-o-y in FY19 stood thin at 0.21%. The company earned a gross cash accruals of Rs.3.24 crore in FY19 (Rs.4.44 crore in FY18). Due to its low profitability, the debt protection parameters remained below average marked by Total debt/ GCA at 30.39 years in FY19. The interest coverage ratio remained depressed at 0.93x in FY19, however DSCR remained adequate at 1.22x. In H1FY20, the company earned net sale of Rs.177.07 crore (Rs.155.21 crore in H1FY19).

- **Working capital intensive operations**

The operations of the company are working capital intensive, marked by its high operating cycle of 90-150 days during FY17-19. The inventory days are high at around 90-150 days primarily on account of high raw material holding period. The average collection period remains high at around 90-120 days. This implies working capital intensive operations where much of the company cash is locked up in inventory and with the customers. On an average, the company takes around 80-90 days to pay its suppliers. This is accentuated with high average utilisation of working capital limits at more than ~96% during the trailing 12 months ended October 2019

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Stretched

PAPL has stretched liquidity marked by its low cash accruals due to thin profit margin and elongated operating cycle. Due to high working capital intensity the average utilisation of fund based limits remained high ~96% during the past 12 months ended October 2019 indicating a limited liquidity buffer.

About the Company

Incorporated in 1995, PAPL is involved in the businesses of making readymade garments, retailing apparels and trading in fabric. Promoted by Mr. Pradeep Agarwal and the Phulchand Group, the company has four manufacturing units in Karnataka. The company primarily manufactures men’s and women’s formal and casual wear under various brands and undertakes contract manufacturing for large brands such as Brand Factory (Future group), Brand Studio Lifestyle Private Limited, Aditya Birla, among others. The company also operates two retail store under ‘Coupon’ brand and four franchise stores ‘F-Square’ in Bangalore.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	202.26	329.76
EBITDA	12.96	13.56
PAT	0.14	0.69
Total Debt	90.09	98.35
Tangible Net worth	111.67	112.17
EBITDA Margin (%)	6.41	4.11
PAT Margin (%)	0.07	0.21
Overall Gearing Ratio (x)	0.81	0.88

*Classification as per Infomerics’ standards.

Status of non-cooperation with previous CRA: ICRA has moved the rating of PAPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated October 30, 2019.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit	Long Term	82.43	IVR BB-/ Stable Outlook	-	-	-
2.	Short Term Non Fund Based Limits-Letter of Credit	Short Term	4.00	IVR A4+	-	-	-
3.	Short Term Fund Based Limits-Suppliers Bill Discounting	Short Term	5.00	IVR A4+	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Ratings Assigned/ Outlook
Long Term Facilities- Cash Credit	-	-	-	82.43	IVR BB- / Stable Outlook
Short Term Facilities- Letter of Credit	-	-	-	4.00	IVR A4+
Short Term Facilities- Suppliers Bill Discounting	-	-	-	5.00	IVR A4+
Total				91.43	