Press Release

Active Clothing Co Limited (ACCL)

October 14, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Fund Based Bank Facility – Cash Credit	48.44 (Reduced from 58.44)	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Revised
2.	Long Term Fund Based Bank Facility – Term Loan	16.31 (Increased from INR12.14 Crore)	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Revised
	Total	**64.75**		

Details of Facilities are in Annexure I

Detailed Rationale

The revision in rating to the bank facilities of Active Clothing Co Limited takes into account the overall decline of its financial performance in FY21 majorly as a result of ongoing global Covid-19 pandemic. However, the rating continues to derive strength from its experienced promoters and management team, locational advantage & diversified revenue profile, reputed clientele, variety in product offerings with distinctive feature of customize designing and development platform. The rating strengths are partially offset by intensive competition and working capital intensive nature of operation.

Key Rating Sensitivities

Upward Factors

- Substantial and/or sustained improvement in revenue while maintaining the profitability and debt protection metrics.

Downward Factors

- Any decline in revenue and/or profitability adversely impacting the debt protection metrics or liquidity.

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced Promoters and Management team:

The promoters have good experience in the Textile industry. Mr Rajesh Mehra is the Managing director of ACCL, he is qualified Textile Engineer and has an extensive experience in apparel Industry of around three decades. Mrs Reenu Mehra, spouse of Mr Rajesh Mehra is Non-Executive Chairman of ACCL and is actively involved in the business and looks after day to day operations and carries around two decades of experience in the garment manufacturing sector. Promoters are supported by strong management team having a vast experience in the garment industry.

Locational advantage & diversified revenue profile:

The manufacturing facility of the company are based in Mohali and Fategarh Sahib of Punjab, which is in close proximity to the textile hubs like Ludhiana, benefitting the company to procure raw material. Apart from manufacturing, the company is also into the distribution and retailing business. The company has a distributorship of many brands mainly Levi's. The company is also running two multi brand stores in Punjab. Manufacturing & distributorship are the major revenue contributor.

Reputed Clientele:

The company enjoys established relation with reputed clientele viz. Jack and Jones, Only, United Colours of Benetton, Peter England, Pepe Jeans, Wrangler, Lee, Levi's, Celio, Global Desi/AND, Vero Moda, Only, IZod, ICONIC, Arrow, ELLE, Ed Hardy, Mango, Aeropostale, Flying Machine, Numbero UNO, Denizen, Monoprix, Dunnes, George, TCHIBO (Germany) etc. ACCL enjoys the patronage of the customers for more than 3 years. As on July, 2021 the company has order book of around ~ INR80 Crore, for execution up to December, 2021 backed with majority of the customers comprising of market leaders in its various segment. In last one year the company has tied up for kids segment with renowned international brand which is Walmart, UK ; Marks and Spencer and NEXT. Further, the company has also received 16 patents for manufacturing shoe uppers for the renowned brand Adidas and Reebok.

Variety in product offering with distinctive feature of customize designing and development platform:

ACCL is the sole manufacturer and supplier to Levi's India Ltd. under the sweater category and is acclaimed as No.1 distributor for its products range. ACCL is prominent player in apparel industry and includes the range of sweaters, T-Shirts, sweat shirts and Jackets and is appointed by Levi's as an end-to-end supplier for the winter-wear category. ACCL has inhouse design and development division who develops the designs as per the trends, specification, directions, and requirements of the clients. ACCL in this PANDEMIC scenario had started with the range of protective body suits viz. PPE kits with shoe cover and mask of different types for general practitioners in the medical field. Further, in last 12 months the company has also become manufacturer and distributor of kid segment merchandise for renowned international brands (Marks and Spencers, NEXT and Walmart) and exports the same to the European countries.

Key Rating Weaknesses

<u>Decline in overall financial performance of the company:</u>

The overall operating income of the company has declined in FY21 as compared to FY20 due to global pandemic scenario (impacting the apparel industry). The operating income stood at INR73.14 Crore in FY21 as compared to INR147.96 Crore in FY20. Further, the overall profitability of the company also got impacted although cautious cost cutting measures as well as selective product profile leads to improvement in EBITDA margin. The absolute EBITDA and PAT for FY21 stood at INR10.43 Crore and INR0.05 Crore respectively. (FY20: INR13.61 Crore; INR0.86 Crore). The interest coverage ratio of the company stood at 1.54x in FY21 (FY20: 1.72x). However, as the company is shifting the focus to Kids segment as well as added new customers in its kitty, the revenue and overall performance is expected to improve in FY22 and beyond. Nevertheless, the same will depend upon the external global economic factors and pandemic control. The performance of the company backed by new contracts and product profile will be key monitorable. The company has achieved the revenue of around INR53.00 crore in IHFY22.

<u>Intensive competition:</u>

The apparel manufacturing and retailing sector consist of large number of unorganised players leading to high competition. Most of the apparel manufacturers typically tend to be dependent on limited set of customers which leads to geographic concentration risk. Also, retail sales of international brands that have entered the Indian market in recent years, have being growing at a strong pace leading to a stiff competition with the domestic brands.

Working capital intensity:

The company’s business is working capital intensive as it maintains high inventory for its distribution business. Even in the manufacturing segment the inventories remain high due to stocking of raw material to maintain consistency in the product. The operating cycle of the company stood at 449 days in FY21 (FY20:214 days), the substantial increase operating cycle of FY21 was due to pandemic related stress observed backed by increase in inventory holding period (FY21: 368 days and FY20: 183 days).

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

The Company is expected to earn comfortable level of GCA in the projected period. The company maintains moderate cash and bank balance to meet its liquidity requirements. Overall the liquidity position of the company is expected to be **Adequate**. The average working capital utilisation for the last 12 months ended August 2021, stands at ~76%. The company had cash and cash equivalent of INR4.42 Crore (Including FD) as on March 31, 2021

About the Company

Incorporated in the year 1997, situated in Punjab, Mohali; Active Clothing Co Limited (ACCL) is a garment manufacturer, retailer and distributer majorly for B2B segment. The company also markets apparels under its in house brand “AAGAIN”. The company got listed on BSE (SME Platform) in the year 2018.

Financials: Standalone

(Rs. crore)

For the year ended/ As On	31-03-2020	31-03-2021
	(Audited)	(Audited)
Total Operating Income	147.96	73.14
EBITDA	13.16	10.43
PAT	0.86	0.05
Total Debt	65.35	57.83
Tangible Net-worth	61.51	61.57

Ratios		
EBITDA Margin (%)	8.90	14.26
PAT Margin (%)	0.58	0.07
Overall Gearing Ratio (x)	1.06	0.94

** Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: The rating of Active Clothing Co Limited continues to be under Issuer Non-Cooperating category with CARE ratings as per the Press Release dated July 07, 2021

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (July 15, 2020)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Fund Based Bank Facility – Cash Credit	Long Term	48.44	IVR BB+/Stable Outlook	IVR BBB- /Stable Outlook	--	--
2.	Long Term Fund Based Bank Facility – Term Loan	Long Term	16.31	IVR BB+/Stable Outlook	IVR BBB- /Stable Outlook	--	--

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.

Name and Contact Details of the Rating Team:

Name: Jayshree Purohit
Tel: (022) 62396023
Email: jpurohit@infomerics.com

Name: Amit Bhuwania
Tel: (022) 62396023
Email: abhuwania@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based – Cash Credit	-	-	Revolving	48.44	IVR BB+/Stable Outlook
Long Term Fund Based – Term Loan	-	-	December, 2022	16.31	IVR BB+/Stable Outlook

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Lender_Details_Active_Clothing_.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr. No	Instrument	Complexity Indicator
1.	Term Loan	Simple
2.	Cash Credit	Simple