

## Active Clothing Company Limited

July 07, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	69.41	CARE BB; Stable; ISSUER NOT COOPERATING* (Double B; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE BB+; Stable; (Double B Plus; Outlook: Stable)
Short Term Bank Facilities	0.80	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE A4+; (A Four Plus)
<b>Total Bank Facilities</b>	<b>70.21</b> <b>(Rs. Seventy Crore and Twenty-One Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

#### Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated May 04, 2020, placed the rating of Active Clothing Co. Limited (ACCL) under the 'issuer non-cooperating' category as ACCL failed to provide information for monitoring of the rating. ACCL continues to be noncooperative despite repeated requests for submission of information through e-mails, phone calls and a letter/email dated June 30, 2021. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).***

The rating has been revised on account of non-availability of requisite information due to non-cooperation by ACCL with CARE's efforts to undertake a review of the outstanding rating. CARE views information availability risk as a key factor in its assessment of credit risk. Further, the ratings continue to be constrained by the competitive and fragmented nature of the industry, decline in scale of operations, customer concentration risk and elongated operating cycle. The ratings, however, derive strength from the experienced promoters, satisfactory overall solvency position, diverse selling channels & product portfolio, established business relationships with reputed customers and high level of operational integration at a favorable location.

#### Detailed description of the key rating drivers

##### Key Rating Weaknesses

***Risks pertaining to the highly fragmented and competitive industry:*** The readymade garment industry in India is characterized by the presence of a large number of small and big players in the organized sector as well as unorganized sector which leads to a highly fragmented industry structure having a high level of competition and intense pricing pressures. The industry, in general, remains cyclical in nature.

***Declining Scale of operations:*** The scale of operations of the company declined in FY21. The company achieved total income of Rs. 73.44 cr in FY21 (Audited) against total income of Rs. 148.24 cr in FY20 (Audited).

***Customer concentration risk:*** In FY19, top five customers contributed ~40% of the net sales while ACCL's top customer, Levis Strauss India Private Limited contributed ~23% of the net sales during the year. This exposes the revenue profile of ACCL to a customer concentration risk. Any change in procurement policy of these customers may adversely impact the business of the company.

***Elongated operating cycle:*** The operating cycle of the company remained elongated at ~443 days as on March 31, 2021 mainly on account of the stretched inventory holding period and collection period.

##### Key Rating Strengths

***Experienced promoters:*** Mr Rajesh Mehra, the current Managing Director of ACCL, holds an industry experience of nearly three decades. The other director of the company, Mrs Renu Mehra (wife of Mr Rajesh Mehra) also holds an industry experience of around two and a half decades.

**Diverse selling channels and established business relationships with reputed customers:** ACCL has been engaged in the textile industry for around two decades which has led to established business relationships with the customers as well as the suppliers. In the manufacturing segment, which constituted ~52% of the net sales in FY19, the client base of the company includes reputed entities like Levi'S, Pepe, United Colors of Benetton etc. Trading of garments is done through the distribution and retail channels. The company operates as a distributor for brands like Levi'S, Flying Machine, Celios, etc. selling primarily to Multi Brand Outlets (MBOs) spread across North India. This segment constituted ~45% of the net sales in FY19. The direct retail sales are made through two rented MBOs both in Punjab (constituting ~3% of the net sales in FY19). Further, the company has also set up its own brand 'AAGAIN' in 2012. Sales under this brand formed ~7% of the net sales in FY19.

**Satisfactory overall solvency position:** The capital structure of the company stood at a satisfactory level with the long term debt to equity ratio and overall gearing ratio at 0.42x and 0.87x respectively, as on March 31, 2021. The debt coverage indicators of the company viz. the total debt to GCA and interest coverage ratio stood at 13.95x as on March 31, 2021 and 1.53x in FY21 respectively.

**Diversified product profile, high level of operational integration & favourable location of operations:** ACCL procures various types of yarns as well as a part of its requirement for knitted cloth from domestic suppliers. Barring this, all the activities for all the other products are done in-house. The manufacturing facilities are equipped with in-house facilities for designing, Research & Development, knitting, printing, finishing, stitching, cutting, labelling, packing, dry-cleaning and washing. The product profile of the company in the manufacturing segment mainly includes T-shirts, shoe uppers and winter wear like sweaters, sweat shirts, jackets etc., catering to men, women and kids segments. In the distribution and retail segment, however, the company is selling the entire product range of the brands being catered to including T-shirts, sweaters, jeans, lowers, etc. The company's manufacturing facilities are based in Mohali and Fatehgarh Sahib, both in Punjab, which is in close proximity to the textile hubs like Ludhiana. The company therefore operates at a close proximity to the raw material suppliers.

**Analytical approach:** Standalone

**Applicable Criteria**

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

#### About the Company

ACCL was initially established as a partnership concern, Active Clothing Co. in 1997, and subsequently reconstituted as a private limited company in 2002. In March-2018, the company successfully completed its IPO and was reconstituted as Active Clothing Co. Limited (ACCL). The company successfully completed its Initial Public Offering (IPO) in March-2018. The company was initially engaged in the distribution of garments. In 2008, however, the company also started manufacturing of garments. Presently, the company is engaged in the manufacturing and trading of readymade garments (trading constituted ~48% of the net sales in FY18) for several brands names including Levi' S, Pepe, Flying Machine, Ed Hardy, Nike, United Colors of Benetton etc. Trading is further done through the distribution and retail channels. The company operates from its two manufacturing facilities, one each in Mohali and Fatehgarh Sahib (both in Punjab) having a total installed capacity of 24 lakh pieces per annum as on March 31, 2019.

Brief Financials (Rs. crore)	FY20(A)	FY21(A)
Total operating income	148.24	73.45
PBILDT	13.44	10.74
PAT	0.72	0.06
Overall gearing (times)	1.06	0.87
Interest coverage (times)	1.67	1.56

A: Audited

**Status of non-cooperation with previous CRA:** NIL

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	30.41	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Working Capital Limits	-	-	-	39.00	CARE BB; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC	-	-	-	0.80	CARE A4; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; Based on best available information

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	30.41	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (04-May-20)	1)CARE BBB-; Stable (25-Jun-19)	1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (02-Apr-18)
2.	Fund-based - LT-Working Capital Limits	LT	39.00	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (04-May-20)	1)CARE BBB-; Stable (25-Jun-19)	1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (02-Apr-18)
3.	Non-fund-based - ST-BG/LC	ST	0.80	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4+; ISSUER NOT COOPERATING* (04-May-20)	1)CARE A3 (25-Jun-19)	1)CARE A3; ISSUER NOT COOPERATING* (02-Apr-18)

\*Issuer did not cooperate; Based on best available information

**Annexure-3: Detailed explanation of covenants of the rated facilities:** Not applicable

**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT-Working Capital Limits	Simple
3.	Non-fund-based - ST-BG/LC	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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