

Active Clothing Company Limited

October 17, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE BB; Stable; ISSUER NOT COOPERATING* (Double B; Outlook: Stable ISSUER NOT COOPERATING*) and Withdrawn
Short Term Bank Facilities	-	-	Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*) and Withdrawn
Total Bank Facilities	0.00 (₹ Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE Ratings Ltd has reaffirmed and withdrawn the outstanding rating of 'CARE BB; Stable/CARE A4: ISSUER NOT COOPERATING [Double B; Outlook: Stable/Single A Four; ISSUER NOT COOPERATING]' assigned to the bank facilities of Active Clothing Company Limited with immediate effect. The rating has been reaffirmed by taking into account the extensive experience of the promoters, diverse selling channels and established business relationships with reputed customers, satisfactory overall solvency position and diversified product profile. The ratings however is constraint on account of Risks pertaining to the highly fragmented and competitive industry, declining Scale of operations, customer concentration risk and elongated operating cycle.

The above action has been taken at the request of Active Clothing Company Limited and 'No Objection Certificate' received from the bank that have extended the facilities rated by CARE Rating Ltd.

Detailed description of the key rating drivers

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. However CARE does not have latest update on the same.

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 0.48x and 0.97x respectively, as on March 31, 2022. The debt coverage indicators of the company viz. the total debt to GCA and interest coverage ratio stood at 15.39x as on March 31, 2022 and 1.70x in FY22 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,

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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.

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 improved and stood Rs.115.22 crores in FY22 against total income of Rs. 73.18 cr in FY21.

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. However, CARE does not have latest details on the same.

Elongated operating cycle: The operating cycle of the company remained elongated at 259 days as on March 31, 2022 (PY: 434 days) mainly on account of the stretched inventory holding period and collection period.

Liquidity: Adequate

The company had free cash and bank balances of Rs.4.26 Cr. as on March 31, 2022. The current and quick ratio of the company stood at a moderate level at 1.83x and 0.84x respectively, as on March 31, 2022.

Analytical approach: Standalone

Applicable criteria

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

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

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).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	6MFY23
Total operating income	73.18	115.22	NA
PBILDT	10.47	9.44	NA
PAT	0.06	0.53	NA
Overall gearing (times)	0.94	0.97	NA
Interest coverage (times)	1.52	1.70	NA

A: Audited, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	January 2023	0.00	Withdrawn
Fund-based - LT-Working Capital Limits		-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	1)CARE BB; Stable; ISSUER NOT COOPERATING* (30-Sep-22)	1)CARE BB; Stable; ISSUER NOT COOPERATING* (07-Jul-21)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (04-May-20)	1)CARE BBB-; Stable (25-Jun-19)
2	Fund-based - LT-Working Capital Limits	LT	-	-	1)CARE BB; Stable; ISSUER NOT COOPERATING* (30-Sep-22)	1)CARE BB; Stable; ISSUER NOT COOPERATING* (07-Jul-21)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (04-May-20)	1)CARE BBB-; Stable (25-Jun-19)
3	Non-fund-based - ST-BG/LC	ST	-	-	1)CARE A4; ISSUER NOT COOPERATING* (30-Sep-22)	1)CARE A4; ISSUER NOT COOPERATING* (07-Jul-21)	1)CARE A4+; ISSUER NOT COOPERATING* (04-May-20)	1)CARE A3 (25-Jun-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

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

Sr. No.	Name of 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

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Amit Jindal
Phone: 9873003949
E-mail: amit.jindal@careedge.in

Relationship contact

Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**