Alpine Apparels Private Limited

February 24, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	24.93 (Enhanced from 2.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Short Term Bank Facilities	76.60 (Enhanced from 48.00)	CARE A3 (A Three)	Assigned
Total Bank Facilities	**101.53 (Rs. One Hundred One Crore and Fifty-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Alpine Apparels Private Limited (AAPL) derive its strength from the long experience of promoters in the leather business, company's established track record of operations, long-standing relationship with reputed clients with growing scale of operations and adequate liquidity position. The rating strengths are, however, constrained on account of company's leveraged albeit improving capital structure, revenue concentration risk, vulnerability to changing fashion trends and highly competitive industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustainable improvement in scale of operations beyond by 15% with improvement in profitability margins
- Improvement in the capital structure with an overall gearing of below 1x

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Stretch in the working capital cycle or any large capital expenditure in the near term, thereby leading to weakening of financial risk profile.
- Deterioration in the capital structure with an overall gearing beyond 2x.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoter:

Mr. Sanjay Leekha is having a vast experience and in-depth knowledge of the Leather goods and products industry. He has been associated with this industry since 1986, when he set up his Leather gloves manufacturing facility at Faridabad. Mr. Leekha is presently the Chairman of The Council for Leather Exports, Ministry of Commerce & Industry, Govt of India.

Reputed customer base though with customer concentration

Although AAPL has scaled up its operations over the years yet the contribution of top 5 customers continues to remain high which stood at ~83% of the net sales during FY21 (PY: ~82%), with one customer, Centric Brands LLC, contributing to around 26% to the net sales in FY21 (PY: 10.60%). This exposes the company towards customer concentration risk. Any change in procurement policy of this customer may adversely impact the business of the company. This also exposes the company's revenue growth and profitability to its customer's future growth plans. The company has long term association of 7-8 years with its major customers which partly mitigate the revenue concentration risk. The top 10 customers of the company contributed to 89.37% (PY: 89.16%) of the total revenue.

Growing Scale of operations along with steady operational performance

Scale of operations of the company remained small in the past years, though scale is growing from Rs 63.89 crore to Rs 199.28 crore during the period FY17-FY20 registering CAGR of 46%. However, in FY21, company's turnover declined by 31% due to the impact of COVID 19. Company's profitability is improving YoY from FY16 to FY21 due to economies of scale. PBILDT Margin improved from 8.62% in FY20 to 9.56% in FY21 majorly on account of decrease in processing expenses from Rs 14 crore in FY20 to Rs 4 crore in FY21 due to inhouse processing instead of job work. Profitability of the company depends on the order size of the product and customer's purchasing power.

9MFY22 Performance: Company reported turnover of Rs 160.05 crore till Dec 21 with PBILDT of Rs 19.17 crore signifying further improvement in the profitability due to economies of scale.

Key Rating Weaknesses

Moderate Capital Structure:

The company's debt to equity ratio is improving YoY from 4.44x in FY17 to 1.91x as on March 31, 2021 on account of accretion of profits in the business. Further in FY21, improvement is seen on account of reduction in working capital limit utilisation from

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

Rs 55 crore in FY20 to Rs 31 crore in FY21 which is partially offset by increase in long term borrowings to the extent of Rs 5 crore. However, Interest coverage ratio moderated from 2.53x in FY20 to 2.28x in FY21 on account of high interest cost despite decline in turnover of the company. Total debt to GCA moderated from 8.48x in FY20 to 8.54x in FY21 due to declined total operating income thereby leading to lower GCA.

Exposure to fluctuation in price of commodities and currency rates:
AAPL procures majority of raw material from the approved vendors as it deals with reputed clients in luxury and premium segment having huge focus on the quality of raw material involving stringent quality checks. Thus, these clients have their appointed vendors from countries like china, Korea, hongkong and Italy etc. exposing the company to foreign exchange risk. Since, the company is majorly into exports which insulates it from forex risk by natural hedge to some extent. Apart from natural hedge, company does not hedge its exposure.

Vulnerability to changes in fashion trends
The branded lounge wear/ night wear segment is driven by fashion trends and its target segment's aspirations. Therefore, their association with brands may change. Thus, manufacturers need to constantly innovate and adapt to the changing preferences of the target segment. AAPL, with its team of in-house designers who work on the upcoming season's collections, is expected to have the ability to adapt to the changing market trends.

Working capital intensive nature of operations
Operations of the company are highly working capital intensive marked by an average operating cycle of around 159 days (PY:122 days) This is primarily because the company has to provide a credit period of around 90 days to the international customers. Also, the company is required to maintain adequate inventory of raw materials for the smooth running of its production processes. Company imports majority of its raw material from china, Italy, hongkong etc which involves lead time of 30 days approximately. Also, company stock its raw material majorly to cater any urgent demand and to have sufficient buffer stock for making samples which then undergoes many changes as per the requirement of customer prior approval of design reflecting under WIP/raw material leading to high inventory levels. The company purchases raw materials from domestic market also and keeps an inventory of around 124 days. The high working capital requirements were largely met through bank borrowings which resulted in average utilization of around 70% of its sanctioned working capital limits ending Nov 21.

Liquidity: Adequate
The company has adequate liquidity marked by gross cash accruals of 15.14 crore against repayment obligations of Rs 6.26 crore in FY22 with sufficient cash and bank balance of Rs 5.59 crore as on Dec 31, 2021. On account of, working capital intensive nature of operations, the company has high utilization of working capital borrowings as against the sanctioned limits and stretched operating cycle of 159 days as on March 31,2021 (PY: 122 days). The average utilization stood approx. 70% during the past 12 months ending November,2021.
AAPLs current ratio improved and stood at 1.16x as on March 31, 2021 (PY: 1.08x). The company has incurred capex of Rs 16 crore spread over FY20-22. The same is funded in the Debt-Equity ratio of 68:32. No major capex is envisaged in near term. The capex planned is only related to routine maintenance capex and for improvement in production processes. It is expected that internal accruals would be sufficient to meet incremental working capital requirements and repayment obligations.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Company
Alpine Apparels Pvt. Ltd (AAPL), was established in 1986 by Mr. Sanjay Leekha. It is engaged in manufacturing and export of a complete range of fashion goods from leather handbags, belts, small leather products and lifestyle accessories. Its client includes some of the most celebrated luxury labels, fashion retail stores, Highstreet and premium brands across the world. AAPL is constantly widening its product portfolio and enhancing its bouquet of offerings in line with the ever-dynamic and evolving fashion trends in the world. Company is recognised by the Government of India as a Star Export House. The company has also been the proud recipient of the Export Performance Awards from the Council for Leather Exports every year since 1990. Company is having cumulative installed capacity of 8,80,000 pieces of bags, wallets, belts, cap, other leather goods and 10,000 pairs of leather gloves. AIPL has eight manufacturing facilities in Faridabad (Haryana) located near national highway along with availability of large pool of semi-skilled and unskilled labours.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22
Total operating income	199.28	138.14	160.05
PBILDT	17.17	13.20	19.17
PAT	5.68	4.60	-
Overall gearing (times)	2.51	1.91	-
Interest coverage (times)	2.53	2.28	-

A: Audited; Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Feb 2027	18.43	CARE BBB-; Stable
Fund-based - ST-EPC/PSC		-	-	-	72.60	CARE A3
Fund-based - LT-Working Capital Limits		-	-	-	6.50	CARE BBB-; Stable
Non-fund-based - ST-BG/LC		-	-	-	4.00	CARE A3

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	18.43	CARE BBB-; Stable				
2	Fund-based - ST-EPC/PSC	ST	72.60	CARE A3				
3	Fund-based - LT-Working Capital Limits	LT	6.50	CARE BBB-; Stable				
4	Non-fund-based - ST-BG/LC	ST	4.00	CARE A3				

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Fund-based limits	• Current ratio not to fall below 1.12x • Adjusted total outside liabilities to net worth (including quasi equity) not to be greater than 3x
B. Non-financial covenants	
I Cash Credit	Statement of stock and book debts, on a monthly basis, to be submitted latest by the 15th of subsequent month.

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Working Capital Limits	Simple
2	Fund-based - ST-EPC/PSC	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Fund-based - LT-Term Loans	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 instrument: CARE Ratings Ltd. 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.

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