

Active Clothing Co Limited

May 04, 2020

Ratings

| Facilities/Instruments | Amount (Rs. crore) | Rating ¹ | Rating Action |
|----------------------------|--|--|---|
| Long-term Bank Facilities | 69.41 | CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable; ISSUER NOT COOPERATING*) | ISSUER NOT COOPERATING; Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable), on the basis of best available information |
| Short-term Bank Facilities | 0.80 | CARE A4+; ISSUER NOT COOPERATING* (A Four Plus; ISSUER NOT COOPERATING*) | ISSUER NOT COOPERATING; Revised from CARE A3 (A Three), on the basis of best available information |
| Total Facilities | 70.21 (Rupees Seventy crore and Twenty One lakh only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Active Clothing Co Limited (ACCL) to monitor the ratings vide e-mail communications/letters dated March 20, 2020, March 18, 2020, March 03, 2020, February 24, 2020, February 13, 2020, February 06, 2020, and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. 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. The rating on ACCL's bank facilities will now be denoted as **CARE BB+;Stable/CARE A4+ ISSUER NOT COOPERATING***.

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 ratings have been revised on account of the competitive and fragmented nature of the industry. The ratings further remain constrained by the modest 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 favourable 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.

Modest scale of operations: The scale of operations of the company remained modest with a total operating income of Rs.154.73 Cr. in FY19 (refers to the period April 01 to March 31). The same had grown at a compounded annual growth rate of ~11% in the FY16-FY19 period. However, the total income achieved by ACCL in H1FY20 (unaudited) declined by ~8% to Rs.74.70 Cr., compared to H1FY19 (unaudited).

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 ~175 days as on March 31, 2019 mainly on account of the stretched inventory holding period and collection period, especially in the distribution segment.

²Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

*Issuer did not cooperate; Based on best available information

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 0.46x and 1.07x respectively, as on March 31, 2019. The debt coverage indicators of the company viz. the total debt to GCA and interest coverage ratio stood at 6.79x as on March 31, 2019 and 2.75x in FY19 respectively. The interest coverage ratio remained comfortable at 1.96x in H1FY20 (unaudited) though deteriorated from 2.81x in H1Y19 (unaudited) on account of higher interest expenses.

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

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

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

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for manufacturing companies](#)

[CARE's methodology for Short Term Instruments](#)

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) | FY18 (A) | FY19 (A) |
|------------------------------|----------|----------|
| Total operating income | 127.49 | 154.73 |
| PBILD | 16.13 | 16.43 |

| | | |
|---------------------------|------|------|
| PAT | 2.43 | 3.49 |
| Overall gearing (times) | 0.98 | 1.07 |
| Interest coverage (times) | 2.41 | 2.75 |

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

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 | - | - | December-2022 | 30.41 | CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB-; Stable on the basis of best available information |
| Fund-based - LT-Working Capital Limits | - | - | - | 39.00 | CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB-; Stable on the basis of best available information |
| Non-fund-based - ST-BG/LC | - | - | - | 0.80 | CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3 on the basis of best available information |

*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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Fund-based - LT-Term Loan | LT | 30.41 | CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB-; Stable on the basis of best available information | - | 1)CARE BBB-; Stable (25-Jun-19) | 1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (02-Apr-18) | 1)CARE BBB-; Stable (07-Apr-17) |
| 2. | Fund-based - LT-Working Capital Limits | LT | 39.00 | CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB-; Stable on the basis of best available information | - | 1)CARE BBB-; Stable (25-Jun-19) | 1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (02-Apr-18) | 1)CARE BBB-; Stable (07-Apr-17) |
| 3. | Non-fund-based - ST-BG/LC | ST | 0.80 | CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3 on the basis of best available information | - | 1)CARE A3 (25-Jun-19) | 1)CARE A3; ISSUER NOT COOPERATING* (02-Apr-18) | 1)CARE A3 (07-Apr-17) |

*Issuer did not cooperate; Based on best available information

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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