# Active Clothing Co. Limited

June 25, 2019

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 69.41 | **CARE BBB-; Stable (Triple B Minus; Outlook: Stable)** | INC revoked and Rating Reaffirmed |
| Short-term Bank Facilities | 0.80 | **CARE A3 (A Three)** | INC revoked and Rating Reaffirmed |
| **Total Facilities** | **70.21 (Rupees Seventy crore and Twenty One lakh only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Active Clothing Co Limited (ACCL) continue to derive strength from the experienced promoters, and satisfactory overall solvency position. The ratings further derive strength from the diverse selling channels with diversified product portfolio, established business relationships with reputed customers, favourable location of operations and high level of operational integration in the manufacturing process.

The ratings, however, remain constrained by the modest scale of operations, working capital intensive nature of operations, customer concentration risk and highly competitive & fragmented nature of the industry.

Going forward, the ability of the company to profitably scale-up its operations, improve its overall solvency position and manage its working capital requirements efficiently will remain the key rating sensitivities. Furthermore, any new capex and funding mix for the same impacting the credit profile will also remain a key rating sensitivity.

**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.

***Satisfactory overall solvency position:*** The company successfully completed its Initial Public Offering (IPO) where in shares of the company were listed on the Bombay Stock Exchange in March-2018. The net IPO proceeds of Rs.25.05 Cr. have been utilized for working capital requirements and remaining for general corporate purposes. 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, improving from 1.40x and 2.29x respectively, as on March 31, 2016. This is mainly attributable to the year-on-year accretion of profits to the net worth base of the company coupled with the addition of the IPO proceeds in FY18. The debt coverage indicators of the company viz. the total debt to GCA and interest coverage ratio have also improved from 8.70x as on March 31, 2016 and 2.43x in FY16 respectively, to 6.79x as on March 31, 2019 and 2.75x in FY19 respectively. The same is attributable to the growth in GCA and PBILDT in absolute value terms during the FY16-FY19 period.

***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 company's manufacturing

[1] *Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications.*

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.

***Diversified product profile:*** 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.

***Key rating weaknesses***

***Modest, albeit growing, scale of operations:*** The scale of operations of the company remained modest with a total operating income of Rs.154.73 Cr. in FY19. The same, however, has grown at a compounded annual growth rate of ~11% in the FY16-FY19 period. The growth in income was on the back of increased demand in the distribution segment in FY17 and in both the manufacturing and distribution segment in FY18. Further, the revenue from the distribution segment increased in FY19 which was supported by addition of new clients. The revenue from the manufacturing segment, however, declined by ~1% in FY19.

***Customer concentration risk:*** In FY19, top five customers contributed ~40% (PY: ~32%) of the net sales while ACCL’s top customer, Levis Strauss India Private Limited contributed ~23% (PY: ~22%) 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.

***Highly fragmented industry and high level of competition:*** The readymade garment industry in India is characterized by a 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.

***Elongated operating cycle:*** The operating cycle of the company remained elongated at ~175 days as on March 31, 2019 stretching from ~139 days as on March 31, 2016 mainly on account of the stretched inventory holding period and collection period, especially in the distribution segment.

**Analytical approach**– Standalone

**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings]

[Financial ratios – Non-Financial Sector]

[CARE’s methodology for manufacturing companies]

[CARE’s policy on default recognition]

[Criteria for short-term instruments]

**Liquidity position-Adequate**: The average utilization of the working capital limits remained moderate at ~77% in the twelve months ended May-2019. The company had free cash and bank balances of Rs.3.16 Cr. as on March 31, 2019. The company has a debt repayment obligation of Rs.4.96 Cr. in FY20 (Gross Cash Accruals of Rs.9.62 in FY19). The current and quick ratio of the company stood at a moderate level at 1.57x and 0.63x respectively, as on March 31, 2019. Further the company has projected a regular replacement capex of Rs.0.50 Cr. in FY20 to be funded entirely through the internal accruals generated.

**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 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 |
| PBILDT | 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:** NA

**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 BBB-; Stable |
| Fund-based - LT-Working Capital Limits | - | - | - | 39.00 | CARE BBB-; Stable |
| Non-fund-based - ST-BG/LC | - | - | - | 0.80 | 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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fund-based - LT-Term Loan | LT | 30.41 | CARE BBB-; Stable | - | 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 BBB-; Stable | - | 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 A3 | - | 1)CARE A3; ISSUER NOT COOPERATING* (02-Apr-18) | 1)CARE A3 (07-Apr-17) | - |

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

***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:**

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