

Artedz Fabs Limited

October 04, 2018

Rating			
Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities (Term Loan)	-	-	Withdrawn
Long-term Bank Facilities (Cash Credit)	10.50	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Total	10.50 (Rupees Ten crore and Fifty lakh only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Artedz Fabs Limited (AFL) is constrained by increasing albeit relatively modest scale of operations, leveraged capital structure & moderate debt coverage indicators and working capital intensive nature of operations. The rating is further constrained by susceptibility of profit margins to fluctuations in raw material prices and presence of company in the highly competitive and fragmented textile industry.

The rating, however, derives strength from the vast experience of the promoters in the textile business coupled with demonstrated financial support from them and moderate profit margins.

AFL's ability to increase the scale of operations and improve the profitability, capital structure and liquidity position by efficiently managing the operating cycle are the key rating sensitivities.

Detailed description of the key rating drivers
Key Rating Weaknesses

Relatively modest scale of operations: The scale of operations of AFL stood relatively modest with the total operating income ranging from Rs.25-65 crore over FY15-FY18. However, the same increased at a healthy rate of 27.58% CAGR over the same period owing to significant manufacturing ramp-ups, including expansion of manufacturing facilities undertaken over the period, coupled with increasing production volumes over the period. Given the modest scale of operations, the tangible net-worth base also stood small during the period FY15-FY18 which limits the financial flexibilities of the company to the extent.

Leveraged capital structure & moderate debt coverage indicators: The capital structure of AFL stood leveraged with the overall gearing ranging from 1.90-3 times over last three balance sheet dates ended March 31, 2018, given the higher reliance on term loans and working capital bank borrowings. Given this, the debt coverage indicators also stood moderate during the same period.

Working capital intensive nature of operations: The operations of AFL are working capital intensive in nature with majority of funds blocked in inventory and debtors. On the other hand, the company extends a high credit period to the suppliers. Given all of the above, the operating cycle stood elongated in the range of 100-160 days over FY15-FY18. Given this, the utilization of working capital limits stood significantly higher.

Susceptibility of profit margins to fluctuations in raw material prices: The profit margins of AFL are susceptible to volatile raw material prices which are directly linked to those of cotton, being a crop of seasonal nature.

Presence of company in the highly competitive and fragmented textile industry: AFL operates in a highly competitive & fragmented industry with a large number of small & large players involved in manufacturing & trading of fabrics. This is evidently reflected in the high collection period of the company.

Key Rating Strengths

Vast experience of the promoters in the textile business and their financial support in the past: The overall operations of AFL are looked after by the promoters – Mr. Kashyap Gambhir and Mr. Satbinder Singh Gill, who possesses over two decades of experience in the textile industry. Moreover, the promoters have been continuously supporting the funding requirements of the company by way of subordinated unsecured loans, which grew at a CAGR of 80.32% over FY15-FY18.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Healthy profit margins albeit losses in the past: The PBILDT margin of AFL stood healthy in the range of 10-16% over FY15-FY18, given the variety of grey & finished fabric manufacturing nature of operations. Moreover, the same has been continuously improving over the same period owing to proportionate decline in various overhead costs on the back of continuous improvement in the scale of operations over the same period. However, the company had posted losses on net level in FY15 and FY16. Nevertheless, the company's cash accruals remained at moderate level and have been improving during last three years ending FY18.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[CARE's Methodology for Manufacturing Companies](#)

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

About the Company

Incorporated in 2006, Artedz Fabs Limited (AFL) is engaged in manufacturing & trading of grey & finished cotton fabrics for shirting material, wherein the dyeing process is completely outsourced and the grey fabrics manufacturing is undertaken in-house, whereas the excess demand is met by way of outsourcing the said activity. However, the company also undertakes trading of grey & finished fabrics, depending upon the customers demand. The company generally purchases primary raw material viz. yarn from domestic market and sells finished fabric to wholesalers and garment manufacturers mainly in Mumbai. The company's name has been changed from Artedz Fabs Private Limited (AFPL) to AFL with effect from February 19, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	53.19	64.34
PBILDT	7.85	10.03
PAT	2.72	3.66
Overall gearing (times)	2.63	1.93
Interest coverage (times)	1.99	2.54

A: Audited

Status of non-cooperation with previous CRA: CRISIL, vide its press release dated June 28, 2014, has suspended its rating of CRISIL B-; Stable on the bank facilities of Artedz Fabs Private Limited (AFPL). The suspension of ratings is on account of non-cooperation by AFPL with CRISIL's efforts to undertake a review of the ratings outstanding.

Any other information: Not Applicable

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

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

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service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-Cash Credit	-	-	-	10.50	CARE BB-; Stable
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB-; Stable (10-Jan-18) 2)CARE B; Stable (05-May-17)	-	1)CARE B (11-Jan-16)
2.	Fund-based - LT-Cash Credit	LT	10.50	CARE BB-; Stable	-	1)CARE BB-; Stable (10-Jan-18) 2)CARE B; Stable (05-May-17)	-	1)CARE B (11-Jan-16)

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