Active Clothing Company Limited

September 02, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Facilities	26.74	IVR BBB-/Stable outlook [IVR Triple B Minus with stable outlook]	-	Assigned	Simple
Long Term/ Short Term Facilities	75.00	IVR BBB-/stable outlook; IVR A3 [IVR Triple B Minus with stable outlook and IVR A Three]	-	Assigned	Simple
Total	**101.74**	**[One hundred one crore and seventy-four lakhs only]**			

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has assigned its rating assigned to the bank facilities for the long term facilities to IVR BBB- with stable outlook and long term/short term facilities to IVR BBB- with stable outlook and IVR A3 of Active Clothing Company Limited (ACCL).

The rating assigned are on account of experienced management, locational advantage coupled with diversified revenue profile. The ratings also draw comfort from reputed clientele and growing scale of operations albeit thin profitability. However, these rating strengths are partially offset by moderate financial risk profile, intensive competition, working capital intensity couple with vulnerability to regulatory risk and changing trends.

The 'Stable' outlook reflects Infomerics Ratings expectation of sustained profitability and running order book position. Infomerics believes ACCL will continue to benefit from its operational track record in the business resulting in increased scale of operations.

Infomerics Ratings has principally relied on the standalone audited financial results of ACCL up to 31 March 2024 (refers to period April 1st, 2023, to March 31st, 2024) along with Q1FY25(refers to period April 1st, 2024 to June 30th, 2024) and projected financials for FY2025 (refers to period April 1st, 2024, to 2 March 31st, 2025) - FY2027 (refers to period April 1st, 2026, to March 31st, 2027), and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Sustained and significant improvement in revenues and profitability
- Sustained improvement in debt protection metrics.

Downward Factors

- Any decline in scale of operations and/or profitability, leading to significant deterioration of debt protection metrics.
- Specific credit metric for rating downgrade will be operating margins remaining below 8.00% on sustained basis.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced Promoters:**

The company is promoted by Mr. Rajesh Mehra and Mrs. Renu Mehra. The promoter has a long experience in the textile industry which has helped the company to establish strong relationships with customers and suppliers thereby, withstanding industry cycles ensured the continuous growth.

- **Locational advantage & diversified revenue profile:**

The manufacturing facilities of the company are based in Mohali, Ludhiana and Fategarh Sahib of Punjab, which is in proximity to the textile hubs, benefiting the company to procure raw material.

- **Reputed Clientele**

The company enjoys established relation with reputed clientele viz. Levis, Jack and Jones, Only and Vera Moda, Celio, United Colors of Benetton, Peter England, Pepe Jeans, Wrangler, Lee, Vero Moda, Arrow, Ed Hardy, Mango, Aeropostale, Flying Machine etc. Post COVID, the company has tied up for kids' segment with renowned international brands which are Walmart, UK; Marks and Spencer and NEXT. Further, the company has also started manufacturing shoe uppers for the renowned brand Adidas, sketchers and Reebok.

- **Increasing scale of operations albeit thin profitability**

The total operating income of the company has grown at (CAGR) of 42.66% during the past three years ended as on March 31, 2024, further on year-on-year basis the total operating income has improved by 5.91% and stood at 212.34 crore in FY24(A) compared to Rs. 200.49 crore in FY23(A) on account of increased in sales volume as well as sales realization of garments. The gross cash accruals of the company witnessed significant improvement of 109.37% and stood at Rs. 12.13 crore in FY24 compared to Rs. 5.79 crore in FY23. With increase in scale of operations, the EBIDTA margin of the company has improved significantly by 316 bps and stood at 9.85% in FY24 compared to 6.69% in FY23. Subsequently the PAT margin of the company has improved by 116 bps and stood at 2.28% in FY24 compared to 1.13% in FY23.

Key Rating Weaknesses

- **Moderate financial risk profile**

The capital structure of the company stood moderate marked by the overall gearing at 1.34x as on March 31, 2024, compared to 1.31x as on March 31, 2023 mainly on account of increase in long term debt along with higher utilization of working capital bank borrowings as on balance sheet date. Total indebtedness of the company as reflected by TOL/TNW stood at 2.18x as on March 31, 2024, deteriorated from 1.77x as on March 31, 2023, mainly on account of higher reliance on external borrowings along with increase in creditors. The debt protection metrics of the company stood moderate marked by interest coverage stood at 2.60x during FY24 compared to 1.86x during FY23. Total debt to GCA improved and stood at 7.66x as on March 31, 2024, compared to 14.60x as on March 31, 2023, on account of improvement in profitability. The DSCR stood at 1.48x for FY24 compared to 0.80x for FY23.

- **Intense competition:**

As the apparel manufacturing and retailing sectors are fragmented and unorganized, the competitive intensity is high. Most of the apparel manufacturers typically tend to be dependent on limited set of customers which leads to geographic concentration risk. Also, retail sales of international brands that have entered the Indian market in recent years, have being growing at a strong pace leading to a stiff competition with the domestic brands.

- **Working capital intensive nature of operations:**

The company’s business is working capital intensive as it maintains a high inventory for its distribution business. Even in the manufacturing segment the inventories remain high due to stocking of raw material to maintain consistency in the product. The operating cycle of the company stood at 172 days in FY24 as compared to 161 days in FY23 on account of increase in collection and inventory period.

- **Vulnerability to Regulatory Risk and changing trends.**

The company operates in export as well as domestic markets. This exposes the company to uncertainties which can affect the top line growth of the company in near future. Also, readymade garment business is characterized by a constant change in fashion trends and as such the ability of the company to constantly innovate in terms of fashion trends is important.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria for assigning Rating outlook.
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The company’s liquidity is marked by expectation of sufficient cushion in cash accruals against its debt repayments for the next 3 years. The company has Current Ratio of 1.35x as on March 31, 2024, compared to 1.43x as on March 31, 2023. The Unencumbered cash and bank balance of company stood at Rs. 0.26 Crores as on 31st March 2024. The average utilisation of fund-based limits stood at 88.88% during the past 12 months ended June 2024. The Operating Cycle of the company stood elongated at 172 days compared to 161 days in FY23 on account of increase in collection and inventory days.

About the Company

Mohali based Active clothing Company Limited (ACCL) was incorporated as a partnership concern in the 1997 by Mehra Family. Further, in 2002 the constitution of the company has changed to Private Limited Company. In 2018, the company got listed on BSE. Initially, the company was initially engaged in the distribution of garments but later the company also started manufacturing, retailer, and distributer majorly for B2B segment. The company operates from its three manufacturing facilities, one in Mohali, one in Fatehgarh Sahib and one at Ludhiana

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	200.49	212.34
EBITDA	13.41	20.91
PAT	2.26	4.86
Total Debt	84.55	92.88
Tangible Net Worth	64.35	69.20
EBITDA Margin (%)	6.69	9.85
PAT Margin (%)	1.13	2.28
Overall Gearing Ratio (x)	1.31	1.34
Interest Coverage (x)	1.86	2.60

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: None

Any other information:

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (FY25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in FY24	Date(s) & Rating(s) assigned in FY23	Date(s) & Rating(s) assigned in FY22
					-	-	-
1.	Long Term Facilities	LT	26.74	IVR BBB-/Stable	Rating	Rating	Rating
	Long Term/Short Term Facilities	LT/ST	75.00	IVR BBB-/Stable; IVR A3			

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Facilities- Corporate term loan	-	-	-	Nov, 2024	0.74	IVR BBB-/Stable
Long Term Facilities- Term Loan	-	-	-	May 2030	26.00	IVR BBB-/Stable

Long-term/Short-term Facilities-Cash Credit	-	-	-	-	75.00	IVR BBB-/Stable; IVR A3

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-ActiveClothing-sep24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable
Annexure 4: List of companies considered for consolidated/Combined analysis: Not applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.