

Best Corporation Private Limited

January 03, 2023

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	208.77 (Reduced from 212.37)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short-term bank facilities	18.64	CARE A1 (A One)	Reaffirmed
Total bank facilities	227.41 (₹ Two hundred twenty-seven crore and forty-one lakh only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Best Corporation Private Limited (BCPL) continue to derive strength from vast experience of the promoters and established track record of the group in the textile industry, integrated nature of operations at group level, long-standing relationship with established clients in export & domestic markets and strong capital structure characterised by low gearing levels, and comfortable debt protection metrics. The ratings are, however, constrained by the moderate client concentration, exposure to group companies and vulnerability of profit margin to volatility in raw material prices and fluctuations in foreign currency.

Rating sensitivities

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

- Ability to scale up operations with the total operating income (TOI) exceeding ₹2,000 crore with a greater diversification in customer profile.

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

- Sharp drop in profitability margins to below 14% at PBILDT levels.
- Any large debt-funded capital expenditure or further large exposure to group entities including non-banking finance company (NBFC), leading to moderation in adjusted gearing above 0.5x.

Detailed description of the key rating drivers

Key rating strengths

Experience of the promoters and established track record of the group: BCPL was incorporated in 2004 by S Ramasamy (Chairman), a first-generation entrepreneur. He has a vast experience of about six decades in various aspects of textile and related business. He is assisted by his two sons, R Rajkumar (Managing Director) and R Dhanapal (Joint Managing Director), who take care of the administrative functions of the group.

Integrated nature of operations: BCPL is a vertically integrated company through its subsidiaries. On a consolidated basis, BCPL has installed capacity of around 3,000 sewing machines, dyeing house capable of processing 12 tonnes/day of knitted fabric and in spinning with cumulative capacity of 130,800 spindles as on March 31, 2022. The garments contribute to 62.6% (PY: 66.8%) of the total income in FY22 (refers to the period April 1 to March 31), while the rest is contributed by yarn, cloth and wastes. BCPL also has windmills of cumulative capacity 25.5 MW and solar plants of capacity 9 MW as on March 31, 2022, which are captively consumed for power requirements.

Presence across domestic and export markets: BCPL has a strong customer base in the domestic as well as the international markets on account of the promoter group's long-standing presence in the textile business and established track record. Nevertheless, the customer profile is concentrated with the top five clients of BCPL collectively contributing to 34.6% (PY: 35.0%) of its total sales in FY22. The domestic sales form 52.06% (PY: 43.75%) of the total income. The company derived 31.38% (PY: 36.73%) of income from US and Europe in FY22.

Comfortable capital structure and debt protection metrics: BCPL's capital structure remains comfortable at 0.21x as on March 31, 2022, with minimal reliance on external borrowings. BCPL had been undertaking capex towards installation of solar power capacity for spinning division and modernisation of its spinning units in its subsidiaries over the past two years. Despite the same, the capital structure is expected to remain comfortable. The debt protection metrics also remained strong with total debt/ gross cash accruals (TD/GCA) to 1.1x as on March 31, 2022 (PY: 1.1x).

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

Consistent operational and financial performance: The operating income of BCPL has remained relatively stable in the range of ₹1,000 crore to ₹1,150 crore over the past three years ended FY21. However, during FY22, the TOI increased to ₹1,458.9 crore in FY22, registering y-o-y growth of 38% over FY21, primarily driven by better sales realisation of yarn. Due to the integrated nature of operations, the PBILDT margin of the company stood range bound between 15% and 16% over past five years ended FY22.

Key rating weaknesses

Exposure to group entities: On a consolidated basis, BCPL has extended loans and advances, investments of ₹165 crore (PY: ₹226 crore) as on March 31, 2022, to the group companies engaged in the real estate and NBFC sector. BCPL had also extended letter of comfort of ₹120 crore to the working capital facilities of a group company engaged in lending of loans against gold jewellery. The total fund based and non-fund-based exposure to group companies and associates stood at 28% (PY: 39%) of net worth as on March 31, 2022.

Inherent volatility associated with raw material prices and its impact on profitability: The group's profitability is susceptible to the movement in the prices of raw cotton, which is the key raw material for production of cotton yarn. The prices of raw cotton are volatile in nature and depend upon factors such as area under production, yield, vagaries of monsoon, international demand supply scenario, inventory carry forward from the previous year and export quota along with minimum support price (MSP) decided by the government. The cotton price had increased significantly in FY22 and H1FY23, thereby impacting the profitability of the company.

Liquidity: Strong

The liquidity is marked by strong accruals of ₹198.1 crore in FY22 against negligible repayment obligations of ₹18.6 crore in FY23. BCPL has free cash and liquid investments to the tune of ₹176.1 crore as on March 31, 2022. BCPL generally offers credit period of around 2 months and avails credit from suppliers for around 45-60 days. BCPL, on a consolidated basis, has been sanctioned working capital limits of ₹485.0 crore and the average utilisation of the same stood low at 21.64% over past 12 months ended September 2022.

Industry outlook

The textile and apparel sector is currently facing uncertainty and challenges in demand and operational profitability. Capacity utilisation has dropped across the textile value chain, especially for yarn and fabric, since May 2022. Slow retail sales in the US and the EU have delayed the orders for readymade garments while yarn exports have come to a standstill. Over last few years, the Government of India has launched various other initiatives to promote textile and apparel industry such as production linked incentive (PLI) scheme for technical textiles, setting up of seven PM Mega Integrated Textile Region and Apparel (PM MITRA) parks in greenfield/brownfield sites and implementing Textile Cluster Development Scheme (TCDS) from 2021-22 to 2025-26. The government has also approved continuation of Scheme for Rebate of State and Central Taxes and Levies on Export of Garments and Made-ups (RoSCTL scheme) up to March 2024 to boost export competitiveness of Indian apparel and made-ups.

Analytical approach

Consolidated. Earlier CARE Ratings Limited (CARE Ratings) had considered Standalone approach; however, due to increasing exposure to subsidiaries, CARE Ratings has now considered the consolidated financials of BCPL for its analytical purpose, which includes the financials of its subsidiaries, whereby it has operational and financial linkages with most of them. The subsidiaries of BCPL which have been consolidated are as below:

S.No	Name of the subsidiary	% of shareholding of BCPL
1	RRD Apparels Pvt Ltd	99.99
2	Surya Prabha Mills Ltd	99.73
3	RRD Tex Private Limited	100.00
4	Lan Spin Tex Private Limited	99.99
5	Best Cotton Mills Private Limited	100.00
6	ARK Innovations Pvt Ltd	59.60
7	LAN Garments Pvt Ltd	99.99
8	Best LAN Garments Pvt Ltd	100.00
9	Best Active Apparel Pvt Ltd	99.99
10	Best Lifestyle Apparel Pvt Ltd	100.00
11	R-Best Infra Pvt Ltd	99.99
12	Marquis Impex PTE Ltd, Singapore	100.00

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Cotton Textile](#)
[Manufacturing Companies](#)

About the company

Best Corporation Private Limited (BCPL) was incorporated in the year 2004 by S Ramasamy. BCPL produces knitted garments for men, women, teenagers, schoolers and toddlers for the export market and specialises in underwear and baby wear with installed capacity of around 3,000 sewing machines. BCPL also sells ring spun yarn and finished fabric from 20's NE to 60's NE to the domestic market through its subsidiaries. The company also has a dyeing house capable of processing 12 tonnes/day of knitted fabric as on September 30, 2022. BCPL has 12 subsidiaries involved in cotton yarn spinning with cumulative capacity of 130,800 spindles as on March 31, 2022, and also garmenting (Doing job work for BCPL). On a consolidated basis, the revenue from sale of garments forms 60% (PY: 61%) of total income, while yarn contributed to 26% (PY: 24%) of income in FY22.

Brief Financials (₹ crore) – Consolidated	FY21(A)	FY22(A)	H1FY23 (P)
Total operating income	1,057.2	1,458.9	NA
PBILDT	183.0	216.9	NA
PAT	130.1	162.4	NA
Overall gearing (times)	0.20	0.21	NA
Interest coverage (times)	33.78	19.72	NA

A: Audited; P: Provisional; NA: Not available

Status of non-cooperation with previous CRA:

Not applicable

Any other information:

Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	205.00	CARE A; Stable
Fund-based - LT-Term Loan		-	-	May 2023	3.77	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	8.00	CARE A1
Non-fund-based - ST-Forward Contract		-	-	-	10.64	CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	3.77	CARE A; Stable	1)CARE A; Stable (06-Apr-22)	1)CARE A; Stable (05-Apr-21)	-	1)CARE A; Stable (04-Mar-20) 2)CARE A; Stable (04-Apr-19)
2	Fund-based - LT-Cash credit	LT	205.00	CARE A; Stable	1)CARE A; Stable (06-Apr-22)	1)CARE A; Stable (05-Apr-21)	-	1)CARE A; Stable (04-Mar-20) 2)CARE A; Stable (04-Apr-19)
3	Non-fund-based - ST-BG/LC	ST	8.00	CARE A1	1)CARE A1 (06-Apr-22)	1)CARE A1 (05-Apr-21)	-	1)CARE A1 (04-Mar-20) 2)CARE A1 (04-Apr-19)
4	Fund-based - ST-Bill discounting/ Bills purchasing	-	-	-				
5	Non-fund-based - ST-Forward contract	ST	10.64	CARE A1	1)CARE A1 (06-Apr-22)	1)CARE A1 (05-Apr-21)	-	1)CARE A1 (04-Mar-20) 2)CARE A1 (04-Apr-19)

*Long term/Short term.

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

Not applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Non-fund-based - ST-Forward contract	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 instruments: CARE Ratings 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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About us:

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