

Press Release

Sristi Garments

October 19, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 5.50 Cr
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned short-term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs 5.50 crore bank facilities of Sristi Garments.

Tamil Nadu-based, Sristi Garments (SG) is a proprietary concern established in 2005. The concern is established by Ms. P. Kavitha and is engaged in manufacturing of readymade garments for kids and women. The unit is a 100 per cent export unit with ~60 per cent exports to Netherlands and remaining to Spain. The concern operates from three units in Tamil Nadu, two of these units are located in Madhavaram and one unit is located in Trivachur. The concern has 450 single needle sewing machines with an installed capacity of 10,000 pieces of readymade garments per day.

Key Rating Drivers

Strengths

• Experienced management

SG is a proprietorship concern, which was established by Ms. Kavitha, who has over a decade of experience in textile industry. Mr. Balakrishna, Managing Director, looks after the day-to-day business activities of the concern. He has more than two decades experience in textile industry. The long track record of the management has enabled them to establish a strong relationship with suppliers and customers.

Acuite believes that SG will continue to benefit from experienced management and established track record of operations

• Improved operating performance

Operating income of the concern has improved to Rs. 23.71 crore in FY2019 as compared to Rs. 20.61 crore in FY2018, led by increase in export sales. EBIT has improved to Rs. 2.05 crore in FY2019 as compared to Rs. 1.78 crore in FY2018 and Rs. 1.36 crore in FY2016. Profit margin of the concern has improved from 3.90 per cent in FY2017 to 4.30 per cent in FY2019.

Acuite believes that going forward the company's ability to maintain its profit margins will be key monitorable.

• Average financial risk profile; albeit modest net worth base

SG has average financial risk profile marked by net worth of Rs. 3.51 crore as on March 31, 2019 as compared to Rs. 2.47 crore as on March 31, 2018. The gearing (Debt-to-equity) stood at 3.55 times as on March 31, 2019 as against 5.08 times as on March 31, 2018 due to decline in overall debt undertaken by the company. Total debt of Rs. 8.53 crore (Rs 10.96 crore in FY2018) mainly comprises of short-term bank borrowings to the extent of Rs. 4.80 crore and long-term bank borrowings of Rs. 3.11 crore. TOL/TNW has also improved to 2.99 times in FY2019 as compared to 5.32 times in FY2018. ICR (Interest coverage ratio) stood at 2.20 times for FY2019 as against 2.16 times for FY2018.

Weaknesses

• Modest scale of operations in highly competitive and fragmented readymade garments industry:

SG registered revenues of Rs. 21.31 crore in FY2019 as against Rs. 19.11 crore in FY2018, exhibiting modest scale of its operations. SG also operates in a highly fragmented industry on account of low

entry barriers and low capital requirements, which restricts its pricing flexibility. Acuite believes that the ability of SG to increase its scale of operations while maintaining healthy growth in operating margins will be a key rating monitorable.

• Susceptible to geographic concentration risk and foreign exchange fluctuation risk

SG's is a 100 per cent export oriented unit, deriving its income by exports to Netherlands (60 per cent) and Spain (40 per cent). The revenues and operations of the concern is exposed to the changes regulatory environment and customer preferences in these countries. The concern is also exposed to foreign exchange fluctuation risk as its 100 per cent revenue comes from exports to Netherlands and Spain.

The ability of the concern to diversify its customer base to new geographies will be a key rating monitorable

Rating Sensitivity

- Healthy growth in revenues and operating margins.
- Deterioration in financial risk profile and liquidity position.

Material Covenants

None

Liquidity Position: Stretched

Liquidity profile of SG is stretched, reflected by ~80 percent utilisation of working capital limits over the past 6 months ending September 30, 2019 and moderate accruals of Rs 1.31 crore in FY2019. The GCA days stood at 114 days in FY2019 as compared to 146 days in FY2018, led by lower inventory holding period. The concern has cash and bank balances of Rs ~0.49 crore. Acuite believes that working capital intensive operations and moderate accruals are expected to keep the liquidity stretched in the near to medium term.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	23.71	20.61	18.49
EBITDA	Rs. Cr.	2.35	2.10	1.68
PAT	Rs. Cr.	1.02	0.83	0.72
EBITDA Margin	(%)	9.89	10.20	9.07
PAT Margin	(%)	4.30	4.04	3.90
ROCE	(%)	16.55	17.44	36.55
Total Debt/Tangible Net Worth	Times	2.43	4.43	2.77
PBDIT/Interest	Times	2.20	2.16	2.56
Gross Current Assets (Days)	Days	114	146	125

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Export Packing Credit / Foreign Bill Purchase / Foreign Bill Discounting	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A4+ (Assigned)

Contacts

Analytical	Rating Desk
Vinayak Nayak Vice President – Rating Operations Tel: 022-49294071 vinayak.nayak@acuite.in Pravin Mule Analyst - Rating Operations Tel: 022-49294063 pravin.mule@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294021 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.