# Press Release

**Sristi Garments**

January 07, 2021

**Rating Reaffirmed**

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

** Refer Annexure for details*

**Rating Rationale**

Acuité has reaffirmed its short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs.5.50 Cr bank facilities of Sristi Garments (SG).

### About the company

Sristi Garments (SG) was established in 2005 as a proprietary firm by Ms. P Kavitha. A Tamil Nadu based firm, SG is engaged in manufacturing and exporting of kids and ladies readymade garments. It exports 100% of its products to Spain and Netherlands. Netherlands constitutes ~60% of the sales and balance is from Spain. The firm currently has an installed capacity of manufacturing 10,000 pieces of readymade garments per day, with current production of approx. 7000 pieces per day. The firm has total 3 units in Tamil Nadu, two of these units are located in Madhavaram and one unit is located in Thiruvotriyur.

The rating reaffirmation on the bank facilities of SG factors in its established track record of operations, experienced management, moderate profitability margins and moderate working capital management. These rating strengths are partially offset by its modest scale of operations, below-average financial risk profile and susceptibility to geographic concentration risk and foreign exchange fluctuation risk.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of SG to arrive at the rating

## Key Rating Drivers

### Strengths

- **Experienced management and established track record of operations**

  SG is a proprietorship concern, established in the year 2005 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 2 decades experience in textile industry. The long track record of the management has enabled them to establish a strong relationship with its suppliers and customers. Acuité believes that SG will continue to benefit from experienced management and established track record of operations.

- **Moderate profitability margins**

  The profitability margins of the firm remained moderate. The EBITDA margin stood at 9.90 percent in FY2020 as against 9.89 percent in FY2019. The PAT margins improved to 4.47 percent in FY2020 as against 4.30 percent in FY2019 on account of decline in interest expense. Acuité believes that the profitability margin of the firm is expected to remaine at similar levels.

- **Moderate working capital management**

  The working capital management of SG remained moderate, evident from its Gross current asset (GCA) days of 134 days as on March 31, 2020 as against 114 days in FY2019. The increase in GCA days is on account of increase in debtor days. The inventory days stood at 21 days and 29 days as on March 31, 2020 and 2019, respectively. Usually, the firm offers 45-90 days of credit period to its customers. The debtor days stood at 65 days and 46 days as on March 31, 2020 and 2019, respectively. The creditor days stood at 67 days and 59 days as on March 31, 2020 and 2019, respectively. The bank lines remained fully utilized for the last six months ended in November 2020. Acuité believes that SG's working capital cycle will remain moderate over the medium term.

## Weaknesses

- **Modest scale of operations**

The revenues of the firm remained modest with Rs.22.68 Cr in FY2020 as against Rs.23.71 Cr in FY2019. This is on account of the slow orders flow. SG generated revenue of Rs.11.03 Cr for 8M of FY2021. The revenue of the firm for FY2021 is expected to decline as the firm remained non-operational in April 2020 on account of Covid-19. Acuité believes that the revenues of the firm expected to be remained modest in the near term.

- **Below-average financial risk profile**

The firm's financial risk profile is below-average marked by modest capital structure and average debt protection metrics. The networth stood at Rs.3.64 Cr as on March 31, 2020 as against Rs.3.51 Cr as on March 31, 2019. The debt to equity (gearing) ratio stood at 2.73 times as on March 31, 2020 as against 2.43 times as on March 31, 2019. The gearing deteriorated marginally on account of increase in debt levels. Interest Coverage Ratio (ICR) stood at 2.50 times for FY2020 as against 2.20 times for FY2019. The marginal improvement in ICR is due to decrease in interest expense. Debt Service Coverage Ratio (DSCR) stood at 1.48 times as on March 31, 2020 as against 1.77 times as on March 31, 2019. TOL/TNW deteriorated from 2.99 times as on March 31, 2019 to 3.34 times as on March 31, 2020. Acuité believes that the financial profile of the SG is expected to be at similar levels over the medium term owing to moderate accretion to reserves and absence of any significant debt-funded capex plans.

- **Susceptibility 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 firm is exposed to the changes in regulatory environment and customer preferences in these countries. The firm is also exposed to foreign exchange fluctuation risk as 100 per cent its 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 Sensitivities

- Lower-than-expected revenue and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity

## Liquidity Position: Adequate

The liquidity position of the firm remained adequate with adequate net cash accruals to service its debt obligations, fully utilized bank lines, modest current ratio and low unencumbered cash and bank balance. The NCA's stood modest and remained in the range of Rs.1.16-1.36 Cr through FY2018-2020 against the repayment obligation of Rs.0.27-0.62 Cr. The NCA's are expected to be in the range of Rs.0.90-1.90 Cr through FY21-23 against the repayment obligation of Rs.0.38-0.70 Cr. The current ratio stood at 1.01 times as on March 31, 2020. The cash and bank balance stood at Rs.0.54 Cr as on March 31, 2020. The working capital limits are almost fully utilized for the last six months ended in November 2020. Acuité believes that the liquidity profile continues to be adequate, supported by accruals and moderate working capital management.

## About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|---|---|---|---|
| Operating Income | Rs. Cr. | 22.68 | 23.71 |
| PAT | Rs. Cr. | 1.01 | 1.02 |
| PAT Margin | (%) | 4.47 | 4.30 |
| Total Debt/Tangible Net Worth | Times | 2.73 | 2.43 |
| PBDIT/Interest | Times | 2.50 | 2.20 |

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

None

## Any Material Covenants:

None

## Any other information
None

**Applicable Criteria**

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

**Note on complexity levels of the rated instrument**
https://www.acuite.in/view-rating-criteria-55.htm

## Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|---|---|---|---|---|
| 19-Oct-19 | Export Packing Credit/Foreign Bill Purchase/Foreign Bill Discounting | Short Term | 5.50 | ACUITE A4+ (Assigned) |

## *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 | Not Applicable | Not Applicable | Not Applicable | 5.50 | ACUITE A4+ (Reaffirmed) |

## Contacts

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