

Press Release

Sristi Garments

March 24, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	5.50	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	5.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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 Firm

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, 2 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

Acuite 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 11.97 percent in FY2021 as against 9.90 percent in FY2020. The PAT margins improved to 5.17 percent in FY2021 as against 4.47 percent in FY2020 on account of decline in interest expense. Acuité believes that the profitability margin of the firm is expected to remain at similar levels.

- **Moderate working capital management**

The working capital management of firm remained moderate with Gross Current Assets (GCA) days at 167 days as on March 31, 2021 as against 134 days as on March 31, 2020. The increase in GCA days is on account of increase in debtor days from 65 days as on March 31, 2020 to 95 days as on March 31, 2021. The inventory days improved to 19 days as on March 31, 2021 as against 21 days as on March 31, 2020. creditor days which decreased to 44 days as on March 31, 2021 from 67 days as on March 31, 2020. The bank lines of the firm almost fully utilized for the last ten months ended December 2021.

Weaknesses

- **Modest scale of operations**

The revenues of the firm stood at Rs.17.71 Cr in FY2021 as against Rs.22.68 Cr in FY2020, this is on account of the orders flow. Management is expecting that they would generate revenue of Rs.18-20 Cr for FY2022. Acuité believes that the revenues of the firm expected to be remained modest in the near term.

- **Below-average financial risk profile**

The networth of the firm remained modest at Rs.3.93 Cr as on March 31, 2021 as against Rs.3.64 Cr as on March 31, 2020. The gearing stood at 2.57 times as against 2.73 times as on March 31, 2021 and 2020 respectively. Debt protection metrics Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) stood at 2.61 times and 1.78 times respectively as on March 31, 2021. TOL/TNW decreased to 2.90 times as on March 31, 2021. 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 %) and Spain (40 %). 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 % 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

Material covenants

None

Liquidity Position: Adequate

The liquidity position of the firm remained adequate with adequate net cash accruals to service their debt obligations. The NCA's of the SG stood moderate and remained in the range of Rs.1.30-1.34 Cr through FY2019-2021 against the repayment obligation of Rs.0.12-0.38Cr for the same period. The Net cash accruals are expected to be in the range of Rs.1.31-1.53 Cr through FY22-24 against the repayment obligation of Rs.0.30-0.60 Cr for the said period. The current ratio of the firm stood at 1.25 times as on March 31, 2021. The cash and bank balance of the firm stood at Rs.0.18 Cr as on March 31, 2021. The working capital limits of the company are almost fully utilized for the last ten months ended December 2021.

Outlook: Stable

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	17.71	22.68
PAT	Rs. Cr.	0.92	1.01
PAT Margin	(%)	5.17	4.47
Total Debt/Tangible Net Worth	Times	2.57	2.73
PBDIT/Interest	Times	2.61	2.50

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

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>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jan 2021	Packing Credit	Short Term	5.50	ACUITE A4+ (Reaffirmed)
19 Oct 2019	Bills Discounting	Short Term	5.50	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
UCO Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A4+ Reaffirmed

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About Acuité Ratings & Research

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