

Press Release

Selvam Process

July 12, 2018

Rating Assigned



| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 7.16 Cr. |
| Long Term Rating | ACUITE B / Outlook: Stable |
| Short Term Rating | ACUITE A4 |

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.7.16 crore bank facilities of Selvam Process. The outlook is 'Stable'.

Selvam Process (SP) is a partnership firm engaged in dyeing of hosiery fabrics. The unit is located in Tirupur (Tamil Nadu) with a capacity to process 250,000 kgs per month. It was promoted by Mr. R. Subramanian in 1990 and is currently managed by partners, Mr. S. Govindrajan, Mrs. G Sudha and Mr. R. Subramanim.

Key Rating Drivers

Strengths

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

SP was established in 1990 by Mr. R. Subramanian with experienced in this industry for more than four decades. The other partners, Mr. Govindrajan has over two decades of experience in fabric dyeing, while Mrs. G Sudha has experience of over a decade. Over the years, the firm has established healthy relationships with customers and suppliers.

- **Healthy financial risk profile**

SP has moderate financial risk profile marked by tangible net worth of Rs.6.98 crore as on 31 March, 2017 as against Rs.6.27 crore as on 31 March, 2016. The adjusted debt to equity ratio stood healthy at 0.28 times as on 31 March, 2017 as against 0.48 times as on 31 March, 2016. The debt of Rs.2.18 crore mainly consists of term loan of Rs.1.60 crore, unsecured loan of Rs.0.24 crore and working capital borrowing of Rs.0.34 crore as on 31 March, 2017. Interest Coverage Ratio (ICR) stood healthy at 11.73 times for FY2017 as against 8.64 times in FY2016. Net Cash Accruals/Total Debt (NCA/TD) stood at 1.46 times as on 31 March, 2017 as against 0.96 times as on 31 March, 2016.

Weaknesses

- **Stretched working capital cycle**

The firm has working capital intensive operations marked by high Gross Current Assets of 144 days in FY2017 as against 128 days in FY2016. This is majorly on account of high receivable days which stood at 110 days in FY2017 as against 89 days in FY2016. The supplier days stood at 321 days in FY2017 as against 277 days in FY2016. Acuite believes that being into yarn manufacturing industry the operations of the group will remain working capital intensive.

- **Modest Scale of operations**

The firm has small scale of operations marked by operating income of Rs.22.94 crore in FY2017 and Rs.22.37 crore in FY2016 which declined from Rs.26.20 crore in FY2015. Further, SP has achieved revenue of Rs.22.43 crore for FY2018 (Provisional). The operating margins of the firm are healthy at 15.07 percent in FY2017 as against 15.40 percent in FY2016. The PAT margins are healthy at 10.15 percent in FY2017 as against 9.05 percent in FY2016.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SP to arrive at this rating.

Outlook: Stable

Acuite believes that SP will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the firm's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 22.94 | 22.37 | 26.20 |
| EBITDA | Rs. Cr. | 3.46 | 3.44 | 4.47 |
| PAT | Rs. Cr. | 2.33 | 2.02 | 0.00 |
| EBITDA Margin | (%) | 15.07 | 15.40 | 17.06 |
| PAT Margin | (%) | 10.15 | 9.05 | 12.00 |
| ROCE | (%) | 28.19 | 24.60 | 66.72 |
| Total Debt/Tangible Net Worth | Times | 0.31 | 0.51 | 0.58 |
| PBDIT/Interest | Times | 11.73 | 8.64 | 16.36 |
| Total Debt/PBDIT | Times | 0.63 | 0.92 | 0.85 |
| Gross Current Assets (Days) | Days | 144 | 128 | 114 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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. Crore) | Ratings/Outlook |
|------------------------------------|------------------|----------------|----------------|-------------------------------|------------------------------|
| Proposed Long Term Loan | Not Applicable | Not Applicable | Not Applicable | 3.50 | ACUITE B / Stable (Assigned) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 0.25 | ACUITE B / Stable (Assigned) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 1.25 | ACUITE B / Stable (Assigned) |
| Bank guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 0.06 | ACUITE A4 (Assigned) |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 2.10 | ACUITE B / Stable (Assigned) |

Contacts

| Analytical | Rating Desk |
|---|---|
| <p>Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in</p> <p>Salome Farren Analyst - Rating Operations Tel: 022-67141164 salome.farren@acuiterratings.in</p> | <p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p> |

About Acuité Ratings & Research:

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