

Press Release

Selvam Process

February 18, 2019



Rating Upgraded, Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 22.16 Crore (Enhanced from Rs. 7.16 crore)
Long Term Rating	ACUITE B+/Stable (Upgraded and Assigned)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE B**' (read as **ACUITE B**) and reaffirmed short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 7.16 crore bank facilities and assigned long term rating of '**ACUITE B+**' (read as **ACUITE B plus**) to the Rs. 15.00 crore bank facilities of Selvam Process (SP). The outlook is '**Stable**'.

The rating upgrade is on account of expected future revenue growth based on capacity additions with healthy profitability. The firm has reported revenue of Rs.22.54 crore for the period 31 December, 2018 (Provisional). The revenue in current period has increased due to addition of new customers adding to the revenue of the firm.

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 his son, Mr. S. Govindrajan and Mrs. G Sudha.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and established track record of operations

SP is a family business which was established in 1990 by Mr. R. Subramanian. After the promoter passed away, his son and Mrs. G Sudha handles the business. Mr. S Govindrajan has experience in this industry of more than two decades, 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 healthy financial risk profile marked by tangible net worth of Rs. 8.41 crore as on 31 March, 2018 as against Rs.6.98 crore as on 31 March, 2017. The debt to equity ratio stood healthy at 0.22 times as on 31 March, 2018 as against 0.31 times as on 31 March, 2017. The debt of Rs.1.89 crore mainly consists of term loan of Rs.0.60 crore, unsecured loan of Rs. 0.25 crore and working capital borrowing of Rs.1.04 crore as on 31 March, 2018. Interest Coverage Ratio (ICR) stood healthy at 16.67 times in FY 2018 as against 11.73 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 1.61 times as on 31 March, 2018 as against 1.46 times as on 31 March, 2017. Acuite expects the debt protection metrics to remain at moderate levels in view of debt funded capex plans of the firm.

Weaknesses

High Project execution risk

The firm is undertaking expansion plans to increase capacity of dyeing to 750 kgs per hour. The total cost of the project is expected to be Rs.18.00 crore. The project is expected to be funded partially

through term loan of ~Rs.15.00 crore and balance through internal accruals. The commercial date of production is expected to be June 2019. Any significant delays in implementation of the project sanction of term loans and achieving the commercial operations will impact the debt protection indicators. Acuite believes that the timely completion of the project is critical to the credit profile of SP.

Stretched working capital cycle

The firm has working capital intensive operations marked by high Gross Current Asset (GCA) of 182 days in FY2018 as against 144 days in FY2017. This is majorly on account of high receivable days which stood at 134 in FY2018 as against 110 days in FY2017.

Liquidity Profile:

SP has moderate liquidity profile marked by healthy net cash accruals of about Rs.9.50 crore during FY2016-18. The firm has short long term debt obligations of Rs.1.89 crore in FY2018. The cash accruals of the firm are estimated to remain between Rs.3.00 - 6.00 crore in the near to medium term, while its repayment obligations are estimated to be ~Rs.1.00-3.00 crore in the medium term, as the firm is expected to undertake debt funded capital expenditure in the short term. The firm's working capital operations are high as marked by Gross Current Asset (GCA) days of 182 in FY2018. The firm had unencumbered cash and bank balances of Rs.0.03 crore as on March 31, 2018. The current ratio of the firm stood moderate at 1.24 times as on March 31, 2018. Acuite believes that the liquidity of the firm is likely to remain moderate over the medium term on account of healthy cash accruals and low debt repayments and high GCA days over the medium term.

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	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	22.45	22.94	22.37
EBITDA	Rs. Cr.	3.23	3.46	3.44
PAT	Rs. Cr.	2.25	2.33	2.02
EBITDA Margin	(%)	14.39	15.07	15.40
PAT Margin	(%)	10.00	10.15	9.05
ROCE	(%)	25.07	28.19	51.27
Total Debt/Tangible Net Worth	Times	0.22	0.31	0.51
PBDIT/Interest	Times	16.67	11.73	8.64
Total Debt/PBDIT	Times	0.58	0.63	0.92
Gross Current Assets (Days)	Days	182	144	128

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

Not Applicable

Any other information

Not Applicable

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12 July, 2018	Cash Credit	Long Term	1.25	ACUITE B/ Stable (Assigned)
	Proposed Term Loan	Long Term	3.50	ACUITE B/ Stable (Assigned)
	Term Loan	Long Term	0.25	ACUITE B/ Stable (Assigned)
	Proposed Bank Facility	Long Term	2.10	ACUITE B/ Stable (Assigned)
	Bank Guarantee	Long Term	0.06	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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE B+/ Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE B+/ Stable (Upgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE B+/ Stable (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.10	ACUITE B+/ Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.06	ACUITE A4 (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE B+/ Stable (Assigned)

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About Acuité Ratings & Research:

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