Press Release

Ess Pee Knit wear (EPK)
04 January, 2017
Rating Assigned

Total Bank Facilities Rated*	Rs.17.50 Cr
Long Term Rating	SMERA BBB-/Stable (Assigned)
Short Term Rating	SMERA A3 (Assigned)

**Refer Annexure for details*

Rating Rationale

List of Key Rating Drivers and their detailed description

Strengths:

Long track record of operations: The promoters have more than two decades of experience in the same line of business.

Healthy financial risk profile: The company has healthy financial risk profile marked by comfortable gearing and coverage indicators. The financial risk profile of EPK is marked by comfortable gearing (debt-to-equity) at 0.93 times as on March 31, 2016 against 1.07 times in FY2014-15. Moreover, the interest coverage ratio stood comfortable at 3.63 times in FY2015-16 against 4.57 times in FY2014-15. The operating margin stood at 5.40 per cent in FY2015-16 against 5.32 per cent in FY2014-15. The firm has comfortable working capital cycle at 43 days in FY2015-16 as compared to 39 days in FY2014-15.

Weaknesses:

Susceptibility of profit margins to exchange rate fluctuations: EPK is exposed to forex fluctuation risk since it exports products to USA, Germany, Netherlands, South Africa among others. However, the ratings are constrained by the susceptibility of profit margins to fluctuations in forex rates.

Intense competition: The firm faces intense competition from various players in India and overseas which is likely to have an impact on its operating performance and profitability.

Analytical approach: N.A.

Applicable Criteria

- Manufacturing Entities - https://www.smera.in/criteria-manufacturing.htm

Outlook: Stable

SMERA believes that EPK will maintain a stable outlook over the medium term and benefit from its experienced management. The outlook may be revised to 'Positive' if the firm registers substantial growth in revenues and profitability while maintaining debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile or working capital management.

About the Firm

The Tirupur-based partnership firm was established in 1992 by Mr. N. Palanisamy, Mr. T.S. Swaminathan and Mr. S. Mahesh Kumar. The firm manufactures and exports hosiery garments (fashion apparels) for men, women and kids.

For FY2015-16, the firm reported profit after tax (PAT) of Rs.3.42 crore on operating income of Rs.110.39 crore, as compared with PAT of Rs.3.82 crore on operating income of Rs.109.99 crore in FY2014-15. The net worth stood at Rs.11.05 crore as on March 31, 2016 against Rs.10.02 crore a year earlier.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Stand by Line of Credit	LT	1.50	SMERA BBB- /Stable (Assigned)	-	-	-	-	-	-
Foreign Discounting Bill Negotiation (NLC)*	ST	2.50	SMERA A3 (Assigned)	-	-	-	-	-	-
Export Packing Credit/PCFC*	ST	6.50	SMERA A3 (Assigned)	-	-	-	-	-	-
Bank Guarantee	ST	0.05	SMERA A3 (Assigned)	-	-	-	-	-	-
Proposed Long Term/Short Term	LT	6.95	SMERA BBB- /Stable/SMERA A3 (Assigned)	-	-	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/ Outlook
Stand by Line of Credit	N.A	N.A	N.A	1.50	SMERA BBB-/Stable (Assigned)
Foreign Discounting Bill Negotiation (NLC)*	N.A	N.A	N.A	2.50	SMERA A3 (Assigned)
Export Packing Credit/PCFC*	N.A	N.A	N.A	6.50	SMERA A3 (Assigned)
Bank Guarantee	N.A	N.A	N.A	0.05	SMERA A3 (Assigned)
Proposed Long Term/Short Term	N.A	N.A	N.A	6.95	SMERA BBB-/Stable/SMERA A3 (Assigned)

**100% interchangeability between EPC & FDBN (Non LC).*

Note on complexity levels of the rated instrument:
https://www.smera.in/criteria-complexity-levels.htm

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ABOUT SMERA

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