

## Press Release

Ess Pee Knit Wear

30 April, 2018



### Rating Assigned, Reaffirmed and Withdrawn

|                                     |                              |
|-------------------------------------|------------------------------|
| <b>Total Bank Facilities Rated*</b> | Rs. 22.50 Cr.                |
| <b>Long Term Rating</b>             | SMERA BBB- / Outlook: Stable |
| <b>Short Term Rating</b>            | SMERA A3                     |

\* Refer Annexure for details

### Rating Rationale

SMERA has assigned and reaffirmed long-term rating of '**SMERA BBB-**' (read as SMERA -triple B minus) and short term rating of '**SMERA A3**' (read as SMERA A three) on the Rs. 22.50 crore bank facilities of Ess Pee Knit Wear. SMERA has withdrawn the short term rating on bank guarantee facility of Rs 0.05 Crore as the limit has been discontinued by the firm. The outlook is '**Stable**'.

Established in 1992, Ess Pee Knit Wear (EKW) is a Tirupur (Tamil Nadu) based partnership firm promoted by Mr. N. Palanisamy, Mr. T.S. Swaminathan and Mr. S. Mahesh Kumar. The firm is engaged in manufacturing of hosiery garments (fashion apparel) from knitted yarn. EKW is a government recognized export house primarily catering clientele based out of USA, Germany, Netherland and South Africa among other countries. The firm has two manufacturing units located in Tirupur (Tamil Nadu).

### Key Rating Drivers

#### Strengths

##### • Sustained growth in revenue

EKW has booked revenue of Rs.131.96 Crore in FY2016-2017 as compared to Rs 110.39 Crore in FY2015-2016, a year-on-year growth of 19.54 per cent. The long track record of operations and government recognition of being a Star Export House has helped the firm to establish long standing relationship with reputed clientele. For 2017-2018, the firm has reported revenue of Rs 145.00 Crore (provisional).

##### • Healthy Financial Risk Profile

EKW exhibits a healthy financial risk profile marked by net worth of Rs 12.67 crore as on 31st March, 2017 compared to Rs 11.05 crore as on 31st March, 2016. The firm's capital structure remains adequate marked by gearing of 1.36 times as on March 31st 2017 as against 0.93 time as on March 31st 2016. Total debt of Rs 17.18 Crore primarily consist of short term borrowing of Rs 14.98 Crore and term loan of Rs 2.20 Crore as on March 31<sup>st</sup>,2017.The company's debt protection metrics are healthy marked by interest coverage ratio of 6.16 times and net cash accrual to debt of 0.24 times for fiscal 2017. Backed by healthy cash accruals, the financial metrics are estimated to remain healthy over medium term.

##### • Efficient working capital nature of operations

EKW's working capital operations are marked by comfortable Gross Current Asset (GCA) of 95 days in FY2016-17 inventory as against 90 days in FY2015-2016. The GCA days are mainly dominated by inventory of 70 days in FY2016-2017 as against 66 days in FY2015-2016. The debtors are efficiently managed at 15 days FY2016-2017 compared to Rs 13 days in FY2015-2016.

## Weaknesses

- **Susceptibility of profit margin to intense competition and foreign exchange fluctuation**

The firm faces intense competition from domestic players and other countries such as Bangladesh and Vietnam. The same is reflected in moderate operating profit margin of 4.08 percent in FY2016-2017 and 5.40 percent in FY2015-2016. Further, EKW exports a significant part of its production; however, it has no specific hedging policy, rendering it vulnerable to forex rate fluctuations.

## Analytical Approach

SMERA has considered the standalone business and financial risk profile of EKW.

### Outlook: Stable

SMERA believes that the outlook on EKW will remain 'Stable' over the medium term backed by healthy financial risk profile, comfortable liquidity profile and long track record of operations. The outlook may be revised to 'Positive' in case of significant increment in the revenue and improvement in profit margins. The outlook may be revised to 'Negative' in case of deterioration in financial risk profile and stretched working capital cycle.

## About the Rated Entity - Key Financials

|                               | Unit    | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income              | Rs. Cr. | 131.96        | 110.39        | 109.99        |
| EBITDA                        | Rs. Cr. | 5.38          | 5.96          | 5.85          |
| PAT                           | Rs. Cr. | 3.63          | 3.42          | 3.82          |
| EBITDA Margin                 | (%)     | 4.08          | 5.40          | 5.32          |
| PAT Margin                    | (%)     | 2.75          | 3.10          | 3.47          |
| ROCE                          | (%)     | 21.05         | 27.68         | 29.25         |
| Total Debt/Tangible Net Worth | Times   | 1.36          | 0.93          | 1.07          |
| PBDIT/Interest                | Times   | 6.16          | 3.63          | 4.57          |
| Total Debt/PBDIT              | Times   | 2.94          | 1.67          | 1.76          |
| Gross Current Assets (Days)   | Days    | 95            | 90            | 89            |

## Any other information

Not Applicable

## Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

## Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

## Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term       | Amount (Rs. Cr.) | Ratings/Outlook          |
|------|---------------------------------|------------|------------------|--------------------------|
|      | Packaging Credit                | Short Term | 6.50             | SMERA A3<br>(Indicative) |

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|                 |                         |            |      |                                     |
|-----------------|-------------------------|------------|------|-------------------------------------|
| 7 February,2018 | Post Shipment Credit    | Short Term | 2.50 | SMERA A3<br>(Indicative)            |
|                 | Standby Line of Credit  | Long Term  | 1.50 | SMERA BBB-<br>(Indicative)          |
|                 | Bank Guarantee          | Short Term | 0.05 | SMERA A3<br>(Indicative)            |
|                 | Proposed Long term Loan | Long Term  | 6.95 | SMERA BBB-<br>(Indicative)          |
| 4 January ,2017 | Packaging Credit        | Short Term | 6.50 | SMERA A3<br>(Assigned)              |
|                 | Post Shipment Credit    | Short Term | 2.50 | SMERA A3<br>(Assigned)              |
|                 | Standby Line of Credit  | Long Term  | 1.50 | SMERA BBB-<br>/Stable<br>(Assigned) |
|                 | Bank Guarantee          | Short Term | 0.05 | SMERA A3<br>(Assigned)              |
|                 | Proposed Long term Loan | Long Term  | 6.95 | SMERA BBB-<br>/Stable<br>(Assigned) |

**\*Annexure - Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate    | Maturity Date  | Size of the Issue (Rs. Crore)           | Ratings                                |
|------------------------|------------------|----------------|----------------|---|--|
| Packaging Credit       | Not Applicable   | Not Applicable | Not Applicable | 13.75<br>( Enhanced From Rs 6.50 Crore) | SMERA A3<br>( Assigned and Reaffirmed) |
| Post Shipment Credit   | Not Applicable   | Not Applicable | Not Applicable | 2.50                                    | SMERA A3<br>(Reaffirmed)               |
| Standby Line of Credit | Not Applicable   | Not Applicable | Not Applicable | 1.50                                    | SMERA BBB-/stable<br>(Reaffirmed)      |
| Bank Guarantee         | Not Applicable   | Not Applicable | Not Applicable | 0.05                                    | SMERA A3<br>( Withdrawn)               |
| Term Loan 1            | Not Applicable   | Not Applicable | Not Applicable | 1.18                                    | SMERA BBB-/Stable<br>( Assigned )      |

|                           |                |                |                |      |                                |
|---------------------------|----------------|----------------|----------------|------|--------------------------------|
| Term Loan 2               | Not Applicable | Not Applicable | Not Applicable | 2.00 | SMERA BBB-/Stable ( Assigned)  |
| Working Capital term Loan | Not Applicable | Not Applicable | Not Applicable | 0.96 | SMERA BBB-/Stable ( Assigned ) |
| Proposed Long term Loan   | Not Applicable | Not Applicable | Not Applicable | 0.61 | SMERA BBB-/Stable ( Assigned ) |

## Contacts

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## ABOUT SMERA

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