

Press Release

Shreeram & Sons

November 23, 2018



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 20.00 Cr. (Enhanced from Rs 16.00 Crore)
Short Term Rating	ACUITE A4+ (Reaffirmed and assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 20.00 crore bank facilities of Shreeram & Sons. The outlook is '**Stable**'.

Established as a partnership firm by Mr. Bhagwat Sharad Kumar and Mr. V. Ramesh in 2013, Shreeram & Sons (SAS) is a Bangalore based firm engaged in manufacturing and exporting of readymade garments (men's wear and kid's wear including trousers and shirts). The firm is Worldwide Responsible Accredited Production (WRAP) certified and exports to countries such as South Korea, USA and Italy along with catering to brands such Mirza International Limited (Redtape) and Arvind Ltd (Arrow) in the domestic market.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Shreeram and Sons to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced Management

The partners, Mr. Bhagwat Sharad Kumar and Mr. V. Ramesh, have extensive experience of nearly 25 years in garments industry by virtue of their association with reputed brands such as Bombay Rayons Fashion Limited and Texport Overseas Private Limited and Edge Apparels Private Limited in capacity of employee/ partners.

• Steady growth in revenue and reputed clientele

SAS has registered a year on year growth of 32 percent with operating revenue of Rs. 40.57 Crore in FY2017-2018 as against Rs 30.54 Crore in the previous year. In FY2018-2019, the firm has clocked revenue of Rs 18.82 crore till September, 2018 (Provisional). Additionally, the firm has an order book of Rs 29.04 crore consisting of export orders worth Rs. 18.30 crore. The firm's reputed clientele includes brands such Mirza International Limited (Redtape) and Arvind Ltd (Arrow) in the domestic market along with global brands like Shinsegae International Inc (South Korea), Tommy Bahamas (USA) and Micheal Kors (USA). Repeat orders from clients and improved margin from higher proportion of exports sales is expected to provide revenue visibility and support the profitability margins in the medium term.

Weaknesses

• Significant deterioration in the working capital cycle

The working capital cycle has deteriorated significantly marked by gross current asset (GCA) of 330 days in FY2018 as against 168 days in the previous year. The same is on account of elongated credit period of 160 days in FY2018 as against 59 days in FY2017 extended to domestic customers who compromised more than 60 percent of the sales in FY2018. The inventory also rose up significantly from 86 days in FY2017 to 154 days in FY2018. However, considerable shift in revenue profile from domestic sales (64.56 percent in FY2018 to 39.71 percent in FY2019) to export sales, letter of credit backed order book and better payment terms from exporters are expected to improve the liquidity profile of the firm in the medium term. Going forward, the firm ability to garner sufficient export orders

and improve its working capital cycle will remain a key monitorable.

• Weak financial risk profile

The financial profile of SAS remained weak on account of significant withdrawals of capital, deterioration in gearing and modest debt protection metrics. The net worth declined from 3.98 crore as on March 31st, 2017 to 3.90 crore as on March 31st, 2018 on withdrawal from partner's capital. The gearing deteriorated from 2.08 times in FY2017 to 4.86 times in FY2018. The total debt consists of short term borrowings of Rs 18.94 crore (including bill discounting of Rs 5.72 Crore) as on March 31st, 2018. The debt protection metrics remained modest with interest coverage ratio of 1.62 times as on March 31st, 2018 as against 2.13 times in the previous year.

Outlook: Stable

ACUITE believes SAS will maintain a stable business risk profile over the medium term. SAS will continue to benefit from the experienced management and reputed customer base. The outlook may be revised to 'Positive' in case the firm registers strong growth in scale of operations while maintaining stability in profit margins and achieving efficient working capital management. The outlook may be revised to 'Negative' in case of further deterioration in the firm's capital structure, or further elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18(Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	40.57	30.54	8.32
EBITDA	Rs. Cr.	2.38	1.45	0.27
PAT	Rs. Cr.	0.90	0.47	0.20
EBITDA Margin	(%)	5.87	4.73	3.28
PAT Margin	(%)	2.22	1.53	2.46
ROCE	(%)	13.98	12.93	11.28
Total Debt/Tangible Net Worth	Times	4.86	2.08	2.61
PBDIT/Interest	Times	1.62	2.13	1.85
Total Debt/PBDIT	Times	7.51	5.67	8.64
Gross Current Assets (Days)	Days	330	168	489

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)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+ (Reaffirmed)
Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Reaffirmed)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Assigned)

* The packing credit facility includes sub-limit of Rs 3 Crore of OCC

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About Acuité Ratings & Research:

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