

Press Release

Savute Textiles Private Limited

June 22, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 13.50 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB+**' (read as **SMERA BB plus**) on the Rs. 13.50 crore bank facilities of Savute Textiles Private Limited. The outlook is '**Stable**'.

Savute Textiles Private Limited (STPL) was established in 2012 by Mr. Steven Logan and Mr. Gopinathan. The company is engaged in the manufacturing of linen fabric at Kochi, Kerala.

Key Rating Drivers

Strengths

- **Experienced management and reputed clientele**

The promoters of STPL, Mr. Steven Logan and Mr. Gopinathan have extensive experience in the textile industry which has helped establish long term relationships with reputed clients such as Aditya Birla, Raymond and procure repeat orders.

- **Comfortable financial risk profile**

The financial risk profile is marked by healthy gearing levels and debt protection metrics. The networth base is modest. The gearing improved to 0.97 times in FY2017 (Provisional) as against 2.58 times in the previous year. The improvement in gearing in FY2017 has been mainly due to infusion of equity capital to the tune of Rs. 2.17 crore apart from unsecured loan from promoters of Rs. 0.52 crore. SMERA has treated the unsecured loan from promoters as quasi equity based on an undertaking from the company that the same would be maintained in the business over the medium term. The interest coverage levels have improved from 1.41 times in FY2016 to 4.54 times in FY2017 (Provisional). The debt service coverage ratio (DSCR) and net cash accruals to total debt (NCA/TD) stood at 3.50 times and 0.43 times respectively in FY2017 (Provisional) respectively as compared to 1.28 times and 0.08 times respectively in the preceding year. The sharp improvement in debt protection metrics has been driven on account of improvement in the profitability margins both at the operating and net level. The networth levels of the company stood at Rs. 9.17 crore as on 31 March, 2017 (Provisional) as against Rs. 3.12 crore in the previous year. SMERA believes that the sustenance of the financial performance of the company would remain a key monitorable over the medium term.

Weaknesses

- **Working capital intensive operations**

The operations are working capital intensive marked by high gross current asset (GCA) days of 165 during FY2017 (Provisional) compared to 141 days in FY2015. This necessitates working capital requirement as major funds get blocked in inventory. The inventory holding days stand at 75 in FY2017 (Provisional) as against 101 days in FY2016 since the company needs to maintain adequate raw material inventory to meet customer requirements. However, the debtor levels stood at 35 and 37 days in the past two years ended 31 March, 2017. SMERA believes that the operations of the

company would continue to remain working capital intensive over the medium term driven by the inherent nature of business.

• Moderate scale of operations

The scale of operations stood at moderate levels with a turnover of around Rs. 33.96 crore in FY2016 against Rs. 19.62 crore in the previous year. The company has reported a turnover of around Rs. 50.5 crore in FY2017 (Provisional).

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of STPL.

Outlook: Stable

SMERA believes that STPL will maintain a stable outlook in the medium term on account of its experienced management and reputed clientele. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and net cash accruals while maintaining profit margins and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues and profitability or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), the company reported profit after tax (PAT) of Rs.3.60 crore on operating income of Rs.50.53 crore, as compared with PAT of Rs.0.43 crore on operating income of Rs.33.96 crore in FY2015-16.

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

None

Any other information

None

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)

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.50	SMERA BB+ / Stable

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