

Press Release

Savute Textiles Private Limited

December 04, 2018

Rating Upgraded



Total Bank Facilities Rated*	Rs. 18.50 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded from ACUITE D)
Short Term Rating	ACUITE A4 (Upgraded from ACUITE D)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating of '**ACUITE BB-**' (read as **ACUITE BB minus**) from **ACUITE D** and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) from **ACUITE D** on the Rs.18.50 crore bank facilities of Savute Textiles Private Limited (STPL or Savute). The outlook is '**Stable**'.

The rating upgrade reflects improvement in the revenues and accruals, further accentuated by enhanced fund-based limits by way of interchangeability. Savute has got interchangeability of non-fund-based limits of Rs.5.0 crores into fund based limits, thus supported in improvement of the liquidity. Improving revenue profile and immediate payment for supplies has stretched the liquidity in the past. The rating continues to reflect the experienced management and established track record of operations while constrained by working capital intensive operations and moderate scale of operations.

Savute Textiles Private Limited (Savute) was incorporated in the year 1994, and is primarily engaged in manufacture of suiting and shirting fabric. The company has its weaving facility located in Tiruppur, Tamil Nadu with an installed capacity of 40 Rapier looms. STPL is promoted by Mr. Vinesan Gopinathan, Mr. Satish Gopalkrishna Pillai, Mr. Venky Nayar, Mr. Sengodan Sella kumar, and Mr. Peedimakkal Abdulsalim Najeeb who has engaged in the textile business for nearly two decades.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of STPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management and reputed clientele

Savute was incorporated in 2012 by Mr. Vinesan Gopinathan, Mr. Satish Gopalkrishna Pillai, Mr. Venky Nayar, Mr. Sengodan Sella kumar and Mr. Peedimakkal Abdulsalim Najeeb who are in the textile business for nearly two decades. The promoter's experience in textile industry has helped the company to build healthy relationship with its suppliers and customers, to ensure a steady raw material supply and repeat business. It helped in improving the revenues of the company at a compound annual growth rate (CAGR) of about 42 percent from Rs.19.62 crore in FY2015 to Rs.56.26 crore in FY2018. The increase in revenue is attributed to increase in customer base year-over-year. It has vintage clientele of Aditya Birla Fashion and Retail Ltd, Hasbro Clothing Private Limited, Radhamani Exports Private Limited, Arvind Limited, Ara Trading Inc among others. Acuite believes that Savute continues to enjoy the benefit of experienced management in improving its business risk profile over the medium term.

• Comfortable financial risk profile and liquidity position

Savute has comfortable financial risk profile marked by healthy capital structure and comfortable debt protection measures. Savutes' capital structure is healthy marked by low gearing and total outside liabilities to total networth (TOL/TNW) of 0.68 and 1.03 times as on March 31, 2018 as against 1.10 and 2.03 times as on March 31, 2017. Savute's net worth is modest at around Rs.14.54 crore as on March 31, 2018 as compared to Rs.8.63 crore as on March 31, 2017.

The net worth has improved due to healthy accretion to reserves and infusion of equity. The leverage and coverage ratios continue to remain comfortable. The comfortable profitability coupled with low gearing levels has resulted in comfortable debt protection metrics: with interest coverage of 5.09 times and NCA/TD of 0.54 times for FY2018. Savute has reported cash accruals of Rs.5.36 crore in FY2018. The cash accruals are expected to be in the range of Rs.5.5-7.00 crores over the medium term, with no repayment obligations, thus giving moderate financial flexibility; though partly constrained by increasing scale of operations demanding incremental working capital requirement, and working capital intensive operations. Acuite believes that the financial risk profile is expected to improve further in the absence of significant debt-funded capex plans, absence of repayment obligations and moderate accruals.

Weaknesses

• Moderate working capital management

Savute's operations are moderately capital intensive with Gross Current Assets (GCA) of about 162 days in FY2018 and 166 days in FY2017. It maintains moderate inventory of about 3 to 4 months, and receivables of 60 days over past three years through FY2018. Savute's utilisation of its working capital limits of Rs.18.5 crore is at about 82 percent over six months through September 2018; the liquidity position has improved partly with the bank allowing interchangeability of non-fund based limit, with fund-based limits to an extent of Rs.5.0 crores. Going forward, with no major capex plans in place, with moderate net cash accruals, reliance on working capital debt is expected to moderate; and Acuite believes that the working capital operations continues to be at similar levels with expected increase in the working capital requirement to support the increasing scale of revenues.

Outlook: Stable

Acuite believes that Savute will maintain a 'Stable' outlook over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of any larger-than-expected debt-funded capex or any stretch in its working capital cycle leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	56.26	50.11	33.96
EBITDA	Rs. Cr.	8.60	6.74	2.89
PAT	Rs. Cr.	4.98	3.60	0.43
EBITDA Margin	(%)	15.29	13.45	8.50
PAT Margin	(%)	8.85	7.18	1.26
ROCE	(%)	39.23	45.62	28.63
Total Debt/Tangible Net Worth	Times	0.68	1.10	2.64
PBDIT/Interest	Times	5.09	4.55	1.41
Total Debt/PBDIT	Times	1.13	1.37	2.72
Gross Current Assets (Days)	Days	162	167	141

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

NONE

Any other information

NONE

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
27-Aug-18	Cash Credit	Long Term	13.50	ACUITE D (downgraded from ACUITE BB+ / Stable)
	Letter of Credit	Short Term	5.00	ACUITE D (downgraded from ACUITE BB+ / Stable)
18-Jul-18	Cash Credit	Long Term	13.50	ACUITE BB+ / Stable (reaffirmation)
22-Jun-17	Cash Credit	Long Term	13.50	ACUITE BB+ / Stable (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	13.50	ACUITE BB-/Stable (Upgraded from ACUITE D)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4 (Upgraded from ACUITE D)

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About Acuité Ratings & Research:

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