

Press Release

Pravena Creations

August 17, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 9.50 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA B plus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 9.50 crore bank facilities of Pravena Creations. The outlook is '**Stable**'.

Pravena Creations (PC) established in 1999 as a proprietorship concern was converted into a partnership firm in 2006. The firm is engaged in the manufacturing and export of knitted wear and garments for men, women and children. The knitted garments contribute around 80 percent of the total revenue and the balance is generated from woven garments. The firm was promoted by Mr. P. R. Sivaganamoorthi and Mrs. S. Ananthajyothi. Exports to Italy, America, France, Canada etc constitute around 95 percent of total sales. The firm outsources its bleaching, dyeing, washing, embroidery among other work to third parties whereas the knitting activity is performed in-house. The knitting unit is located at Tiruppur with installed capacity of around 5,000 kg per month.

Key Rating Drivers

Strengths

- Established track record of operations and experienced promoters**

The firm is engaged in the manufacturing of readymade garments for men, women and children for the last 17 years. The established track record of operations has helped the firm develop long term relations with customers and suppliers. The partners, Mr. P. R. Sivaganamoorthi and Mrs. S. Ananthajyoti joined the business in 2006 and possess more than a decades experience in the textile industry.

- Established relations with reputed customers**

The firm has been mainly associated with international retailers for more than a decade. The reputed customers include UPIM (Italy), SIPLEC (France), K&L Ruppert Stiftung & Co Handels-Kg, Roots Limited (Canada) and J America LLC (Unites States of America)

Weaknesses

- Uneven revenue trend in a highly fragmented and competitive textile industry**

PC reported operating income of Rs.23.16 crore for FY2016 as against Rs. 13.89 crore in the previous year. Further, PC reported operating income of Rs. 19.33 crore (Provisional) in FY 2016-

17. The firm derives 95 percent of its revenue from export sales. The decline in revenue in FY2017 is mainly on account of delays in approvals for samples sent from customers resulting in delay in receipt of orders. Further, PC operates in a highly fragmented industry and competitive industry structure with a large number of unorganised players due to low entry barriers. Going forward, SMERA expects the firm to report growth in revenue during FY2017-18 on the back of improvement in orders.

• **Average financial risk profile**

The firm's financial risk profile is average marked by low net worth of Rs.2.97 crore (Provisional) as on 31 March, 2017 as against Rs. 2.82 crore in the previous year. The gearing stood at 1.52 times (Provisional) as on 31st March, 2017 as against 0.94 times in the previous year. The interest coverage ratio stood at 1.87 times (Provisional) in FY2017 as against 2.03 times in the previous year. The total liabilities to tangible networth (TOL/TNW) stood at 2.05 times (provisional) as on 31st March, 2017 and 1.53 times in the previous year. Going forward, the firm plans to purchase machinery worth Rs. 1.00 crore to be funded through a term loan of Rs. 0.75 crore and promoters fund of Rs. 0.25 crore. However, the debt funded capex plan is not expected to have any significant impact on the firm's financial risk profile.

• **Working capital intensive operations**

The operations of the firm are capital intensive as indicated by the high Gross Current asset days (GCA) of 157 days (Provisional) for FY2017 compared to 98 days in the previous year. The stretched GCA days are on account of high inventory days of 105 for FY2017 and debtor days of 54 for FY2017. Further, the creditor days fell to 19 days in FY2017. The working capital cycle stood at 140 days (Provisional) for FY2017 as against 67 days in the previous year.

• **Susceptibility of profitability to volatility in raw material prices and foreign exchange**

The profitability of the firm is susceptible to volatility in the raw material prices i.e. cotton prices. Further, the firm is exposed to fluctuations in foreign exchange as it exports around 95 percent of its total sales to Italy, America, France and Canada etc. However, the risk is partially mitigated as the firm avails forward cover to the extent of Rs. 10.00 crore

• **Partnership constitution**

The firm is vulnerable to capital withdrawal risk due to its partnership constitution.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm to arrive at the rating.

Outlook: Stable

SMERA believes that PC will continue to benefit over the medium term on account of its experienced management. The outlook may be revised to 'Positive' if it achieves higher than expected growth in revenue and profitability along with improvement in capital structure and working capital cycle. Conversely, the outlook may be revised to 'Negative', in case of deterioration in the profitability margins, lower than expected cash accruals or large, debt-funded capital expenditure (capex), adversely impacting its financial risk profile.

About the Rated Entity - Key Financials

For FY2015-16, PC reported net profit of Rs. 0.17 crore on operating income of Rs. 23.16 crore as against net profit of Rs. 0.12 crore on operating income of Rs. 13.89 in the previous year. The networth stood at Rs. 2.82 crore as on 31 March, 2016 as against Rs. 1.66 crore in the previous year.

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

Not Applicable

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)

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	0.50	SMERA B+ / Stable
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	7.50*	SMERA A4
Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA A4

*Includes sublimit of Rs. 4.00 crore of PC/PCFC and FBP/FBD/AACB of Rs. 3.00 crore.

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