

Press Release

December 15, 2017

SYNDICATE IMPEX

Rating Assigned



Total Bank Facilities Rated	Rs. 6.00 Cr.
Long Term Rating	SMERA BB-/Stable (Assigned)
Short Term Rating	SMERA A4+ (Assigned)

Rating Rationale

SMERA has assigned a long term rating of '**SMERA BB-**' (read as **SMERA double B Minus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on Rs.6.00 crore bank facilities of Syndicate Impex(SI). The outlook is '**Stable**'

SI was established in the year 2006 and has its manufacturing plant set up at Tirupur, Tamil Nadu. The company is engaged in manufacturing and export of knitted garments with a capacity of 5,00,000 pieces per month of all possible styles and blends. SI procures yarn count ranging from 20s to 70s and outsources knitting, dyeing and compacting. The company primarily caters to the international markets. It has been functioning on 100% capacity utilization levels in the current financial year and has also set up an additional facility to cater to incremental orders. The company has installed 100 new machines to cater to additional demand in addition to its inherent capacity of 250 machines. The main raw materials used are yarn, fabrics like cotton & poly cotton, and blended cotton. The raw material composition of manufactured apparels is determined by the nature of order from the importer. The firm procures raw materials from the local market.

Key Rating Drivers

Strengths

Established operational track record and experienced Management

SI is a partnership firm formed in the year 2006 to carry on the business of manufacturing of hosiery knitted and woven garments for children catering mainly to export markets. Mr.A.Kathiresan and Mr. S. Jayakumar have pursued B.Sc. in Apparel and Fashion Technology and are in the garments business for more than a decade. Going forward, SMERA believes that the company would maintain a stable business risk profile on account of its established presence and extensive experience of the promoters.

Healthy revenue growth

SI has reported a healthy improvement in revenue of ~97 per cent with operating income of Rs. 30.22 crore for FY2017 as against Rs. 15.33 crore in the previous year. The healthy growth can be attributed to capacity expansion and increased demand from existing clients.

Healthy and improved profitability

The firm's profit margins are healthy marked by EBITDA margin at 10.42 percent in FY2017, from 6.51 percent in FY2016. Further, the profit after tax (PAT) margins also stood healthy at 3.92 per cent in FY2017 compared to 2.17 per cent in FY2016. The firm also has healthy Return on Capital Employed (RoCE) of 21.31 per cent (for FY2017) vis-à-vis 11.96 per cent in FY2016.

Comfortable liquidity position

SI has a comfortable liquidity position. The average working capital limit utilisation for past six months ended October 31, 2017 stood at 90 per cent. Current ratio stood at 1.10x times as on 31st March, 2017. Further the firm's working capital operations are healthy as reflected in its gross current assets (GCA) of 75 days as on 31st March, 2017 against 125 days as on 31st March, 2016, due to higher creditor days over debtor days.

Weaknesses

Client Concentration

SI, until now, has been exposed to high client concentration risk as 100 per cent of the total operating income was being generated from one single customer in France - Orchestra, with which the company has been associated since the last 5 years. However, the company's client concentration risk has now got diluted to an extent; the latest order book position of SI consists of customers located in Poland, USA and Germany.

Foreign exchange fluctuation

SI raises the invoices in USD and it does not hedge its foreign currency exposure on a frequent basis. The exposure is hedged through forward contract only when there is an expectation of an INR appreciation against the USD.

Raw material price fluctuation

The prices of apparels manufactured by SI are fixed in nature and the company does not pass on the burden of increase in prices of raw materials to the buyer. This bears a potential risk of an adverse impact on margins.

Leveraged capital structure

SI's financial risk profile is moderate marked by gearing (Debt to Equity) of 3.21x times as on March 31, 2017, which is an improvement from 5.01x times as on March 31, 2016. The tangible net worth stands at Rs. 3.15 crore as on March 31, 2017, an increase from Rs. 1.84 crore as on March 31, 2016. The improvement is mainly on account of infusion of capital by partners and retained profitability of Rs.1.19 crore in the current year vis-à-vis 0.33 crore in the previous year. The total debt of Rs.10.13 crore mainly comprises of working capital borrowings of Rs.3.69 crore, term loans of Rs.5.31 crore, short term debt of Rs.0.73 crore and unsecured loans from relatives of Rs.0.40 crore. The interest coverage ratio (ICR) stood at 2.37 percent in FY2017. The Net Cash Accruals to total debt NCA/TD stood at 0.18x times. SMERA believes that there is high dependence on external funds which is reflected by the high leverage ratio;

however, the outlook may be positive if there is improvement in the tangible net worth by infusion of capital and retention of profits.

Analytical Approach

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

Outlook: Stable

SMERA believes that SI will continue to benefit over the medium term on account of the company's established market position in the garments industry. The outlook may be revised to 'Positive' in case the company registers substantial increase in its profitability margins supported by healthy revenue growth or significant improvement in its capital structure. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in company's profitability margins or significant deterioration in the financial risk profile due to debt-funded capital expenditure or elongated working capital cycle.

About the Rated Entity - Key Financials

For FY2017, SI reported profit after tax (PAT) of Rs. 1.19 crore on operating income of Rs.30.22 crore compared with PAT of Rs.0.33 crore on operating income of Rs.15.33 crore for FY2016. The net worth as on 31 March, 2017 stood at Rs.3.15 crore compared to Rs.1.84 crore as on 31 March, 2016

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)

None

Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Available	4.00	SMERA A4+
Term Loan-I	Not Applicable	Not Applicable	Not Available	0.08	SMERA BB-/Stable
Term Loan-II	Not Applicable	Not Applicable	Not Available	0.74	SMERA BB-/Stable
Term Loan-III	Not Applicable	Not Applicable	Not Available	0.92	SMERA BB-/Stable
Proposed Facility	Not Applicable	Not Applicable	Not Available	0.26	SMERA BB-/Stable

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ABOUT SMERA

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