

Press Release

Shakthi Knitting Private Limited (SKPL)

18 December, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 120.00 Cr.
Long Term Rating	SMERA BBB-/ Outlook: Stable (Assigned)
Short Term Rating	SMERA A3 (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs.120.00 crore bank facilities of Shakthi Knitting Private Limited (SKPL). The outlook is '**Stable**'.

SKPL, a Tirupur-based company was incorporated in 1991 by Mr. SK Vivekananda and S.Vasanth Kumar. The company is engaged in the manufacture and export of apparels and fabrics.

Key rating drivers

Strengths

Experienced management

Mr. SK Vivekananda and S. Vasanth Kumar have more than two decades of experience in the garment industry. The extensive experience of the management has helped the company establish long term relations with reputed customers and suppliers.

Long term relations, reputed customer base and wide geographical reach

SKPL exports its products to USA, Japan, UK, Germany, Australia, China to name a few. It has been catering to a reputed client base including H&M Hennes Mauritz AB, Rupa & Co. Limited, Walmart Inc among others for over a decade. H&M Hennes Mauritz AB contributes around 36.24 percent to SKPL's revenues with the rest generated from other reputed players. The company has a tie-up with Takisada-Osaka, Japan for supply of High GSM, denim-oriented fabrics. Additionally, the company has joined hands with Hanesbrands Inc, Australia for supply of thermal garments.

Moderate coverage indicators

SKPL has moderate coverage indicators with interest coverage ratio of 1.58 times and (DSCR Debt Service Coverage Ratio) of 1.46 times for FY2017 respectively.

Weaknesses

Leveraged capital structure

The adjusted networth of the company stood at Rs.37.87 crore as on 31 March, 2017 (which includes quasi equity of Rs.4.99 crore) as against Rs.34.57 crore in the previous year. The gearing has been high at around 2.70 times as on 31st March, 2017. The total debt of Rs102.26 crore majorly comprises short term borrowings of Rs.99.93 crore and long term borrowings of Rs.2.32 crore.

Working capital intensive operations

SKPL's has high Gross current assets (GCA) of around 177 days as on 31 March, 2017 as compared to 158 days in the previous year. The GCA days are high on account of inventory holding of 115 days and debtors of 50 days. Further, the average cash credit utilisation stood moderate at 90 percent for six months ended October 2017.

Susceptibility of profitability to volatility in raw material prices, forex fluctuation risk

Since raw material cost comprises 68 percent of revenue, fluctuations in raw material cost can impact profitability margins. The company sells its products in the domestic and overseas markets. The company registered revenue of Rs.289.26 crore for FY2016-17 with export sales comprising 57 per cent of revenue.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Shakthi Knitting Private Limited (SKPL) to arrive at the rating.

Outlook – Stable

SMERA believes that SKPL will maintain a Stable outlook over the medium term on the back of its established operational track record and experienced management. The outlook may be revised to 'Positive' in case the company registers improvement in profit margins or financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of high working capital requirements increasing pressure on margins 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.2.62 crore on operating income of Rs289.26 crore, compared with PAT of Rs.2.48 crore on operating income of Rs.299.20 crore in FY2015-16.

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>

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

None

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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00**	SMERA BBB-/Stable (Assigned)
FBP/FBD/PSDL	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA BBB-/Stable (Assigned)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	10.00*	SMERA BBB-/Stable (Assigned)
Inland Bill Discounting	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BBB-/Stable (Assigned)
EPC	Not Applicable	Not Applicable	Not Applicable	23.00	SMERA BBB-/Stable (Assigned)
FDB	Not Applicable	Not Applicable	Not Applicable	8.50	SMERA BBB-/Stable (Assigned)
SBL	Not Applicable	Not Applicable	Not Applicable	3.50	SMERA BBB-/Stable (Assigned)
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	17.00#	SMERA BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A3 (Assigned)
Letter of Credit/Buyers Credit	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA A3 (Assigned)

Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA A3 (Assigned)
Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.25	SMERA A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A3 (Assigned)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.75	SMERA BBB-/Stable (Assigned)

* PC/PCFC includes sub-limit of cash credit Rs.3.00 crore

**Cash credit includes sub-limit of working capital demand loan of Rs.9.00 crore and EPC/PCFC of Rs.10.00 crore and FBP/FBD/LCBD/PSFC of Rs.10.00 crore.

#EPC/PCFC includes sub-limit of PSC/PSFC of Rs.17.00 crore.

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ABOUT SMERA

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