

Press Release

Shakthi Knitting Private Limited

February 05, 2019

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs.121.32 Cr. (Enhanced from Rs.120 Crore)
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.120.00 crore bank facilities and assigned the short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.1.32 crore bank facilities of Shakthi Knitting Private Limited (SKPL). The outlook is '**Stable**'.

The rating reaffirmation reflects sustenance of the revenue growth in line with the estimates backed by diversified product profile and geographical reach. SKPL reported a revenue of Rs.324.42 crore for FY2018; a growth of about 13 percent over FY2017. Further, the ratings continue to reflect the experienced management and established track record of operations while constrained by working capital intensive operations and susceptibility of margins to volatile raw material prices.

SKPL is a Tirupur-based company set up in 1991 by Mr. SK Vivekananda and Mr. S.Vasanth Kumar. The company manufactures and exports Casuals, Intimate, and Thermal wear for men, women, and kids. The company exports its products to regions such as United States, United Kingdom, Germany, Poland, China, Spain, Sri Lanka, Dubai, Japan, Italy, Russia, Turkey, and Netherlands, among others. The company has manufacturing units located in Tirupur (Tamil Nadu) with installed capacity to manufacture 80,000 pieces/day.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management and established presence in the export markets

The promoters have experience of around three decades in the garment industry. SKPL is an established manufacturer and exporter of garments, having an operational track record of nearly three decades. It features among one of the organised exporters of men's, Kids and women wear with its products and has been increasing its focus on higher value-added premium garments during recent fiscals. SKPL exports to large renowned retailers and enjoys long-standing relationship with its customers. The company caters to international fashion houses and retail chains, predominantly in the United States, United Kingdom, Germany, Belgium, and Poland.

The well-diversified customer base includes reputed names such as H&M Hennes Mauritz AB, Network Clothing Co Pvt Ltd, Asda Stores Ltd, Hanesbrands INC (SARALEE) and Emjay International Pvt Ltd, among others; though significant revenue concentration to an extent of 50 per cent is with one client. Aided by the repeat order inflow from its key customers and increasing supplies to its recently expanded customer base, its revenues recorded a moderate growth of about 13 percent over FY2017, and a compound annual growth rate of 6 percent over the last four fiscals. Acuite believes that promoters' entrepreneurial experience and experienced team is expected to aid in improving its business risk profile over the medium term.

• **Moderate financial risk profile**

The financial risk profile is marked by moderate capital structure and Moderate debt protection metrics. The net worth is moderate at Rs.51.90 crore in FY2018 as against Rs.37.87 crore in FY2017; an increase by Rs.14.03 crore owing to infusion of Rs.4.97 crore of equity, and balance out of accretion to reserves. As a result, the gearing (debt-equity) has improved to 1.97 times as on March 31, 2018 from 2.70 times as on March, 2017. Further, its TOL/TNW improved to 2.63 times in FY2018 from 3.47 times in FY2017. Moderate net cash accruals lead to moderate net cash accruals to total debt (NCA/TD) and interest coverage ratio (ICR) of 0.11 times and 2.27 times in FY2018 vis-à-vis 0.06 times and 1.58 times in FY2017, respectively. The company's cash accruals are expected in the range of Rs.10-13 crore against nil repayment obligations over the medium term which gives adequate cushion for the incremental working capital requirements and the liquidity.

Weaknesses

• **Moderate working capital management**

SKPL's operations are working as evident from its Gross Current Assets (GCA) of 181 days as on March 31, 2018 as against 176 and 158 days as on March 31, 2017 and 2016. Working capital requirement has increased as reflected in its increased inventory and debtor days of 112 and 56 days in FY2018, against 103 and 41 days in FY2017. Further, higher amounts locked in GST, ROSL and other incentives to the tune of Rs.13.10 crore in FY2018 against Rs.8.20 crore in FY2017, led to higher bank limit utilisation at over 90 percent for six months through October 2018 constraining the liquidity. The manufacturing operations are carried out throughout the year, though major raw material availability is seasonal leading to working capital intensive operations.

• **Susceptibility of profitability to volatility in raw material prices, forex rates and exposure to intense competition**

Operations are susceptible to sharp fluctuations in prices of raw materials i.e. cotton fabric/printed fabric. Due to seasonal pricing of cotton, huge inventory has to be maintained at times. Profitability is vulnerable to any sharp movement in raw material prices, despite the ability to pass on rise in input cost to customers. SKPL is also susceptible to forex rate fluctuations as its exports are at 60 percent of its products. However, the company hedges its forex exposure through forward contracts. Low entry barriers have also resulted in high fragmentation in the fabric and ready-made garments industry. The unorganised power loom sector accounts for around 60 to 70 percent of the total fabric manufactured in India. Consequently, margins of smaller organised players remain vulnerable to pricing pressure and intense competition.

Liquidity Position:

SKPL has moderate liquidity marked by moderate net cash accruals though partly constrained by high bank limit utilisation. SKPL reported cash accruals of Rs.11.32 crore while its maturing debt obligations are nil. The cash accruals of the SKPL are estimated to remain around Rs.11.00-15.00 crore during 2019-21, against which its repayment obligations are nil. SKPL does not have any significant debt-funded capex plans. However, majority of the cash accruals are absorbed into the incremental working capital requirements as reflected in increase in GCA days to 181 in FY2018 from 158 days in FY2016; this resulted in high utilisation of bank limits at over 92 per cent for six months through December 2018. The current ratio of the SKPL stood at 1.26 times as on March 31, 2018 improved from 1.15 times in FY2017. Acuite believes that the liquidity of the SKPL is likely to remain moderate on account of working capital intensive operations.

Outlook: Stable

Acuite believes that SKPL will maintain a 'Stable' outlook over the medium term from its promoter's entrepreneurial experience and financial flexibility. The outlook may be revised to 'Positive' in case of significant growth in its revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations or any significant debt-funded capex or withdrawal of unsecured loans 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.	324.42	289.26	299.20
EBITDA	Rs. Cr.	26.70	20.30	17.91
PAT	Rs. Cr.	8.34	2.62	2.48
EBITDA Margin	(%)	8.23	7.02	5.98
PAT Margin	(%)	2.57	0.90	0.83
ROCE	(%)	16.03	12.35	11.52
Total Debt/Tangible Net Worth	Times	1.97	2.70	2.80
PBDIT/Interest	Times	2.27	1.58	1.66
Total Debt/PBDIT	Times	3.78	4.96	5.29
Gross Current Assets (Days)	Days	181	176	158

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)

18-Dec-2017	Cash Credit	Long Term	18.00**	ACUITE BBB- / Stable (Assigned)
	FBP/FBD/PSDL	Long Term	6.00	ACUITE BBB- / Stable (Assigned)
	Packing Credit	Long Term	10.00*	ACUITE BBB- / Stable (Assigned)
	Bills Discounting	Long Term	3.00	ACUITE BBB- / Stable (Assigned)
	Export Packing Credit	Long Term	23.00	ACUITE BBB- / Stable (Assigned)
	FDB	Long Term	8.50	ACUITE BBB- / Stable (Assigned)
	Standby Line of Credit	Long Term	3.50	ACUITE BBB- / Stable (Assigned)
	Packing Credit	Long Term	17.00#	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	1.00	ACUITE A3 (Assigned)
	Letter of Credit/Buyers Credit	Short Term	8.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	8.00	ACUITE A3 (Assigned)
	Foreign Letter of Credit	Short Term	2.25	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A3 (Assigned)
	Proposed Long Term Bank Facility	Long Term	8.75	ACUITE 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.

***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	18.00#	ACUITE BBB- / Stable (Reaffirmed)
FBP/FBD/PSDL	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- / Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE BBB- / Stable (Reaffirmed)
Export Packing Credit	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE BBB- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- / Stable (Reaffirmed)
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE BBB- / Stable (Reaffirmed)
FBP/FBD/PSDL	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE BBB- / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 (Reaffirmed)
Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Reaffirmed)
Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.32	ACUITE A3 (Assigned)
Inland Bill Discounting	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (withdrawn)
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BBB- (withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (withdrawn)
Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.75	ACUITE A3 (withdrawn)

#two way interchangeability be EPC and FBDN facilities

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