

Press Release

Shakthi Knitting Private Limited

April 14, 2020



Rating Downgraded & Withdrawn

Total Bank Facilities Rated*	Rs. 121.32 crore
Long Term Rating	ACUITE BB+ (Downgraded; Withdrawn)
Short Term Rating	ACUITE A4+ (Downgraded; Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB+** (read as ACUITE double B plus) from '**ACUITE BBB-** (read as ACUITE triple B minus) and short-term rating to '**ACUITE A4+** (read as ACUITE A four plus) from '**ACUITE A3**' (read as ACUITE A three) on the above-mentioned bank facilities of Rs. 121.32 crores for SHAKTHI KNITTING LIMITED (SKL). The rating withdrawal is in accordance with the Acuité's policy on withdrawal of rating and on account of request received from the company and NOC received from the bankers.

The rating downgrade factors in the declining profitability margins coupled with the working capital-intensive operations. The margins declined to 7.50 percent in FY2019 against 8.23 percent in FY2018. The company's operations continue to be working capital intensive with high inventory holding period leading to high GCA days.

Shakthi Knitting Private Limited is a Tirupur-based company was set up in 1991 by Mr. SK Vivekananda and S. Vasanth Kumar. The company manufactures and exports Casuals, Intimate, and Thermals for men, women, and kids. The company exports its products to regions such as United States, United Kingdom, Germany, Belgium, Poland, China, Spain, Sweden, Sri Lanka, Dubai, Canada, Japan, Switzerland, Italy, Russia, Turkey, Mexico, Netherland, Norway, Denmark among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SKL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established presence in export markets**

The promoters have experience of around three decades in the garment industry. SKL 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. SKL 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 compound annual growth rate of 14.73 percent over the last three fiscals. Acuité 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.60.09 Cr as on March, 2019 as against Rs.51.90 Cr as on March, 2018; an increase by Rs.8.19 Cr owing to loans infused in the form of quasi equity, and healthy accretion to reserves. As a result, the gearing (debt-equity) has improved to 1.66 times as on March 31, 2019 from 1.97 times as on March, 2018. Further, its TOL/TNW improved to 2.18 times as on March 2019 from 2.63 times as on March 2018. Moderate net cash accruals lead to moderate net cash accruals to total debt (NCA/TD) and interest coverage ratio (ICR) of 0.10 times and 2.15 times in FY2019 vis-à-vis 0.11 times and 2.27 times in FY2018, respectively. The company's cash accruals stood at Rs.10.38 Cr against nil repayment obligations during FY2019.

Weaknesses

- Moderate financial risk profile**

SKL's operations are working as evident from its Gross Current Assets (GCA) of 157 days as on March 31, 2019 as against 181 as on March 31, 2018. Working capital requirement has increased as reflected in its increased inventory and debtor days of 103 and 47 days in FY2019, against 112 and 56 days in FY2018. 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. SKL 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 organized players remain vulnerable to pricing pressure and intense competition

Liquidity Position: Stretched

SKL has moderate liquidity marked by stretched net cash accruals though partly constrained by high working capital operations. SKL reported cash accruals of Rs.10.38 Cr while its maturing debt obligations are nil. However, majority of the cash accruals are absorbed into the incremental working capital requirements as reflected in increase in GCA days to 157 in FY2019 from 181 days in FY2018. The current ratio of the SKL stood at 1.31 times as on March 31, 2019 improved from 1.26 times as on March 2018. Acuité believes that the liquidity of the SKL is likely to remain stretched on account of working capital-intensive operations.

Material Covenants

None

Rating Sensitivities

Not Applicable

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	380.78	324.42
PAT	Rs. Cr.	8.18	8.34
PAT Margin	(%)	2.15	2.57
Total Debt/Tangible Net Worth	Times	1.66	1.97
PBDIT/Interest	Times	2.15	2.27

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments- <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-52.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
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)
	Bill 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/ Buyer's 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)
05-Feb-2019	Cash Credit	Long Term	10.00 [#]	ACUITE BBB-/ Stable (Reaffirmed)
	FBP/FBD/PSDL	Long Term	26.00	ACUITE BBB-/ Stable (Reaffirmed)
	PC/PCFC	Long Term	23.00 [#]	ACUITE BBB-/ Stable (Reaffirmed)
	Export Packing Credit	Long Term	10.00	ACUITE BBB-/ Stable (Reaffirmed)
	Cash Credit	Long Term	6.50	ACUITE BBB-/ Stable (Reaffirmed)
	Standby Line of Credit	Long Term	8.50	ACUITE BBB-/ Stable (Reaffirmed)
	FBP/FBD/PSDL	Long Term	1.00	ACUITE BBB-/ Stable (Reaffirmed)
	Letter of Credit	Long Term	8.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	8.00	ACUITE A3 (Reaffirmed)
	Foreign Letter of	Short Term	1.00	ACUITE A3

	Credit			(Reaffirmed)
	Foreign Letter of Credit		1.32	ACUITE A3 (Assigned)
	Inland Bill Discounting	Short Term	3.00	ACUITE A3 (Withdrawn)
	EPC/PCFC	Short Term	17.00	ACUITE A3 (Withdrawn)
	Letter of Credit	Long Term	3.00	ACUITE A3 (Withdrawn)
	Proposed Short Term Bank Facility	Short Term	8.75	ACUITE A3 (Withdrawn)

#Two-way interchangeability between EPC and FBDN facilities

*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 BB+ (Downgraded; Withdrawn)
FBD/FBDN/PSDL	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+ (Downgraded; Withdrawn)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	26.00	ACUITE BB+ (Downgraded; Withdrawn)
Export Packing Credit	Not Applicable	Not Applicable	Not Applicable	23.00#	ACUITE BB+ (Downgraded; Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+ (Downgraded; Withdrawn)
Stand by Line of Credit	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE BB+ (Downgraded; Withdrawn)
FBDN/FBDN	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE BB+ (Downgraded; Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Downgraded; Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4+ (Downgraded; Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4+ (Downgraded; Withdrawn)
Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Downgraded; Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.32	ACUITE A4+ (Downgraded; Withdrawn)

#Two-way interchangeability between EPC and FBDN facilities

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About Acuité Ratings & Research:

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