

Press Release

12 January, 2018

Sakthi Infra Tex Private Limited (SITPL)

Rating Assigned



| | |
|------------------------------------|---------------|
| Total Bank Facilities Rated | Rs. 10.00 Cr. |
| Short Term Rating | SMERA A4+ |

Rating Rationale

SMERA has assigned a short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 10.00 crore bank facilities of Sakthi Infra Tex Private Limited (SITPL).

Sakthi Infra Tex Private Limited (SITPL) incorporated in 2014 is a Tamil Nadu-based company engaged in the manufacture and export of readymade garments (hosiery wear, T-Shirts, baby wear). The operations commenced in 2016. The firm outsources its manufacturing activities to group companies (Lakshmivel Mills Private Limited, CIBI International Private Limited and Gudan Knitwears Private Limited) and domestic players in Tirupur. The company exports its products to Europe, USA and Canada. The day-to-day operations are led by Mr. Govindasamy Sakthivel who possesses more than two decades in the textile industry.

Key Rating Drivers

Strengths

Experienced management and reputed clientele

SITPL, incorporated in 2014 manufactures hosiery fabrics and readymade garments. The company was promoted by Mr. Govindasamy Sakthivel and Ms. Sakthivel Punithavathi. The promoters possess more than three decades of experience in textile manufacturing and have established long term relations with reputed customers such as Aditya Birla, Raymond. This helps the company get repeat orders.

Healthy order book

SITPL has a healthy order book of Rs.16.02 crore as on September 2017 which provides revenue visibility. The company has received orders from Uni Hosiery (USA), Reitmans (Canada), Tex-Ass Textilvertriebs (Germany), and FOX (Israel) among others.

Average financial risk profile

SITPL has average financial risk profile marked by low net worth of Rs.1.14 crore as on 31 March, 2017 compared to Rs.0.05 crore as on 31 March, 2016 on account of limited track record of operations. The gearing stood at 2.81 times as on 31 March, 2017. The total debt comprises unsecured loan from group company of Rs.1.00 crore and short term working capital funds of Rs.2.21 crore as on 31 March, 2017. The unsecured loan is expected to be repaid within three years. The Interest coverage ratio stood at 12.33 times in FY2016-17 compared to 10.92 times in FY2015-16. The net cash accruals against total debt stood at 0.43 times in FY2016-17. SMERA expects the financial risk profile to improve in the absence of capex in the medium term.

Weaknesses

Limited track record of operations, small scale of business

The scale of operations is limited. The firm outsources its manufacturing activities to group companies and domestic players in Tirupur. The firm registered improvement in operating income to Rs.10.16

crore in FY2016-17 from Rs.4.10 crore in FY2015-16. Further, the company registered revenue of Rs.9.58 crore from April 2017 - September 2017.

Working capital intensive operations

SITPL's operations are working capital intensive marked by gross current asset days of 179 in FY2016-17 (PY: 93 days). This was on account of high inventory holding of 108 days in FY2016-17 (PY: 10 days) since the company needs to maintain adequate raw material inventory to meet customer requirements.

Margins susceptible to fluctuations in raw material prices and forex rates

The profitability margins are susceptible to raw material (cotton yarn) price fluctuations. The company registered operating margin of Rs.11.62 percent in FY2016-17 and 0.82 percent in FY2015-16. Further, the PAT margin stood at 10.77 percent in FY2016-17 compared 0.76 percent in FY2015-16. The margins are also exposed to fluctuations in forex rates.

Analytical Approach

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

About the Rated Entity - Key Financials

For FY2016-17, SITPL reported PAT (profit after tax) of Rs.1.09 crore on operating income of Rs.10.16 crore compared with net loss of Rs.0.03 crore on operating income of Rs.4.10 crore in the previous year. The net worth stood at Rs.1.14 crore as on 31 March, 2017 compared to Rs.0.05 crore in the previous year.

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. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|-----------------|
| PC/PCFC | Not Applicable | Not Applicable | Not Applicable | 10.00 | SMERA A4+ |

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