

Press Release

Sakthi Infra Tex Private Limited

January 03, 2019



Rating downgraded

| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 39.00 Cr. (Enhanced from Rs.10.00 crore) |
| Short Term Rating | ACUITE A4 (Downgraded from ACUITE A4+) |

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the short term rating to '**ACUITE A4**' (read as **ACUITE four**) from '**ACUITE A4+**' (read as **ACUITE four plus**) to Rs. 39.00 crore bank facilities of Sakthi Infra Tex Private Limited (SITPL).

The downgrade is due to significant elongation in working capital cycle and high dependence on bank limit utilisation for managing the existing operations. Further, the rating downgrade factors in significant decline in operating and profitability margins to 4.79 percent and 4.48 percent in FY2018 as compared to 7.35 percent and 6.02 percent in the previous year.

SITPL, a Tamil Nadu-based company, was incorporated in 2014. The company is engaged in the manufacture and export of readymade garments (hosiery wear, T-Shirts, kid's wear). The operations commenced in 2016. The day-to-day operations are led by Mr. Govindasamy Sakthivel. The company 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 located in same industrial unit. The company exports its products to Europe, USA and Canada.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SITPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management and reputed clientele

SITPL incorporated in 2014 is engaged in manufacturing of hosiery fabrics and readymade garments. The company is promoted by Mr. Govindasamy Sakthivel and Ms. Sakthivel Punithavathi. The promoters possess more than three decades of experience in textile manufacturing. The extensive experience of promoters has helped the company to establish relations with reputed customers such as Aditya Birla and Raymond. This helps the company get repeat orders. Further, the company has established presence in countries such as Europe, USA and Canada.

• Improving revenue and healthy order book

The operating income of the company has improved to Rs.43.55 crore in FY2018 which has increased from Rs.10.11 crore in FY2017 and Rs.4.10 crore in FY2016. SITPL has booked revenue of Rs.50.00 crore till November 2018. Further, the company has unexecuted order book of ~Rs.45.00 crore as on 15 December, 2018 providing revenue visibility over near to medium term.

Weaknesses

• Working capital intensive operations

The operations of SITPL are working capital intensive marked by high Gross Current Assets (GCA) of 317 days in FY2018 as compared to 179 days in FY2017. The GCA days are mainly dominated by high inventory and receivable days of 130 and 169 days in FY2018. The average cash credit limit utilisation for last six month ending October 2018 was ~91.30 percent. Acuite believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

• Competitive industry and margins susceptible to fluctuations in raw material prices

SITPL operates in textile industry which is exposed to intense competition from several established players in domestic as well as international markets, affecting margins and bargaining power with customers. Further, profitability margins are susceptible to raw material (cotton yarn) price fluctuations.

• Competitive and fragmented industry

SITPL operates in textile industry which is exposed to intense competition from several small as well as large fabric manufacturers affecting margins and bargaining power with customers.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 43.55 | 10.11 | 4.10 |
| EBITDA | Rs. Cr. | 2.09 | 0.74 | 0.03 |
| PAT | Rs. Cr. | 1.95 | 0.61 | 0.03 |
| EBITDA Margin | (%) | 4.79 | 7.35 | 0.82 |
| PAT Margin | (%) | 4.48 | 6.02 | 0.76 |
| ROCE | (%) | 23.38 | 45.50 | 134.00 |
| Total Debt/Tangible Net Worth | Times | 2.16 | 2.26 | - |
| PBDIT/Interest | Times | 4.92 | 6.18 | 10.92 |
| Total Debt/PBDIT | Times | 4.83 | 2.87 | - |
| Gross Current Assets (Days) | Days | 317 | 179 | 93 |

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

Not Applicable

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)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Crore) | Ratings/Outlook |
|-------------|---------------------------------|------------|--------------------|-----------------------|
| 12-Jan-2016 | PC/PCFC | Short Term | 10.00 | ACUITE A4+ (Assigned) |

***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 Applicable | 39.00 (Enhanced from Rs.10.00 crore) | ACUITE A4 (Downgraded from ACUITE A4+) |

Contacts

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|---|---|
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About Acuité Ratings & Research:

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