

Press Release
Sakthi Infra Tex Private Limited

March 18, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.39.00 Cr.
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on Rs.39.00 crore bank facilities of Sakthi Infra Tex Private Limited (SITPL).

Sakthi Infra Tex Private Limited (SITPL) incorporated in 2014 is an Erode based company engaged manufacturing and exporting of hosiery fabrics and hosiery readymade garments including T-Shirts and Baby wears. The operations started in 2016. The company outsources all the manufacturing activities to its group companies and domestic players in Tirupur. The company exports to Export East Asia, Europe countries, USA and Canada. The day to day operation is managed by Mr. Govindasamy Sakthivel who possess more than two decades in the textile manufacturing business.

Analytical Approach

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

Key Rating Drivers

Strengths

• **Experienced management**

SITPL incorporated in 2014 by Mr. Govindasamy Sakthivel and Ms. Punithavathi Sakthivel. The company is engaged in manufacturing of readymade garments. The promoters possess two decades of experience in textile manufacturing. The extensive experience of promoters has helped the company establish relations with reputed customers such as Aditya Birla group and Raymond. The company has established presence in countries such as Europe, USA and Canada.

Weaknesses

• **Working Capital intensive operations**

The company has intense working capital operations as evident from its Gross Current Assets (GCA) of 226 days for FY2019 as against 317 days for FY2018. This was mainly on account of high receivable days of 111 days in FY2019 as against 169 days in FY2018. Intense working capital management has led to full utilization of its working capital limits over the past six months ended December 2019. Acuité believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

• **Below-average financial risk profile**

The financial risk profile of the company is below-average marked by weak capital structure reflected by high gearing (debt-to-equity), high total outside liabilities to tangible net worth (TOL/TNW), and below average debt protection metrics. The gearing and TOL/TNW are high at 4.53 times and 6.49 times as on March 31, 2019. The net worth is moderate at Rs. 11.04 crore as on March 31, 2019. The revenues of the company increased to 122.23 crore during 2018-19, while its operating margins remained low 3.48-4.79 percent. The low profitability coupled with high gearing level has led to below average debt protection measures. The NCA/TD and interest coverage ratio for FY2019 were weak at 0.02 times and 1.69 times respectively.

• **Intense competition and highly fragmented industry**

The company operates in a highly competitive and highly fragmented textile industry and faces competition from established brands as well as unorganized players. This impacts the bargaining power of the firm and margins, thereof.

Liquidity position: Stretched

Liquidity profile of the company is stretched marked by current ratio of 1.15 times for as on 31 March 2019. SITPL's operations were working capital intensive marked by GCA days of 226 for FY2019. The reliance on working capital borrowings remained high with full utilization of working capital limits for last six months ending December 2019. The company maintains unencumbered cash and bank balances of Rs.3.35 crore as on March 31, 2019. Acuité believes that the liquidity of company is likely to remain stretched over the medium term.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	122.23	43.55
PAT	Rs. Cr.	0.73	1.95
PAT Margin	(%)	0.60	4.48
Total Debt/Tangible Net Worth	Times	6.49	6.02
PBDIT/Interest	Times	1.69	4.92

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
03-Jan-19	PC/PCFC	Short Term	39.00	ACUITE A4 (Downgraded from ACUITE A4+)
12-Jan-18	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	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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