

## Press Release

Sakthi Infra Tex Private Limited

February 04, 2022



## Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	68.00	-	ACUITE A4   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	68.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuité has reaffirmed the short-term rating of 'ACUITE A4' (read as ACUITE A four) on the Rs.68.00 crore bank facilities of Sakthi Infra Tex Private Limited (SITPL).

### Rationale for rating reaffirmed

The rating takes into account SITPL's moderate business risk profile marked by its experienced promoters, reputed clientele profile, and recovery in demand leading to improvement in the scale of operations H1FY2021 onwards. The rating also factors the ability of SITPL to sustain the improving operating income over the past financial years. However, these strengths are partially constrained by the working capital operations marked by high GCA days coupled with high utilization of working capital limits, moderate debt protection metrics and presence of competitive industry.

## About the Company

Tamil Nadu-based, Sakthi Infra Tex Private Limited (SITPL) was incorporated in the year 2014. Promoted by Mr. G. Sakthivel and Ms. S. Punithavathi, SITPL is engaged in manufacturing and exporting of hosiery fabrics and hosiery readymade garments including T-Shirts, Baby wears to name a few. SITPL exports to countries like Spain, USA, Israel, Portugal, France, Hong Kong, UK. SITPL outsources all the manufacturing activities to the domestic players in Tripura.

## 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, long track record of operations and reputed clientele

SITPL is engaged in the manufacturing and exporting of hosiery fabrics and hosiery readymade garments including T-Shirts, Baby wears to name a few. The promoters have more than two decades of experience in the textile industry. The extensive experience of promoters has helped SITPL establish relations for repeat orders. SITPL has established presence across Europe, USA and UK. SITPL's revenue visibility is further accentuated by a moderate unexecuted order book from international customer of around Rs.78.22 Cr as on Dec 31, 2021 to be executed in next 3 months of FY2022, thereby, providing near term revenue visibility. Acuité believes that SITPL will continue to benefit from the promoter's established presence in the industry and its improving business risk profile over the medium term.

- **SITPL's ability to sustain the scale of operations despite the impact of Covid-19 Pandemic**

The operations of the SITPL were marginally impacted during the nation-wide lockdown imposed to curb the spread of Covid-19 pandemic and resumed at desirable capacity thereafter. SITPL is engaged in textile manufacturing industry. The operating income in FY2021 (Prov) has improved by nearly 72.0 percent against FY2020. SITPL recorded net sales of Rs.265.54 Cr in FY2021 (Prov) against Rs.154.46 Cr in FY2020. The revenues were low in the Quarter 1 of FY2021 due to lockdown imposed by the government to curb the spread of Covid-19 pandemic. SITPL was able to record absolute EBITDA of Rs.8.56 Cr in FY2021 (Prov) against Rs.6.00 Cr in previous year. In FY2022, SITPL has recorded revenue of Rs.262.21 Cr as on Dec'21 against Rs.188.70 Cr as of Dec'20 resulting in improvement by 39 percent. Acuité expects SITPL to record healthy operating income in current year FY2022 on account of recovery in demand of products and increasing exports orders.

## **Weaknesses**

- **Moderate debt protection metrics; High leveraged capital structure; albeit increase in scale of operations**

SITPL's financial risk profile is below average, marked by a moderate networth, high gearing along with modest debt protection metrics. The EBITDA margins of SITPL marginally deteriorated to 3.22 per cent in FY2021 (Prov) against 3.89 in FY2020. The deterioration is attributable to increase in logistics and labor charges. The PAT margins of SITPL has improved to 1.16 per cent in FY2021 (Prov) in comparison to 0.89 per cent in FY2020. The PAT margins in FY2021 was improved on account of reduction in depreciation and finance cost during the period. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 1.65 times and 1.65 times respectively in FY2021 (Prov) as against 1.43 and 1.32 times respectively in the previous year.

The net worth of SITPL stood at Rs.28.37 Cr as on 31 March, 2021 (Prov) as against Rs.15.42 Cr as on 31 March, 2020. The improvement is on account of moderate accretion of net profit in the reserves and infusion of equity capital of Rs.5.00 Cr during the period. The gearing level (debt-equity) stands improved at 3.31 times as on 31 March, 2021 (Prov) as against 4.43 times as on 31 March, 2020, the improvement is on account of improvement in net worth during the period. TOL/TNW (Total outside liabilities/Total net worth) has marginally improved and stands high at 5.54 times as on 31 March, 2021 (Prov) against 6.28 times in previous year. High TOL/TNW is on account of presence of high leverage position of the SITPL and increase in payables during the period.

The total debt of Rs.93.83 Cr as on 31 March, 2021 (Prov) consist of long-term debt of Rs.18.09 Cr, unsecured loans from promoters/directors of Rs.1.12 Cr, short term debt of Rs.70.07 Cr and maturing portion of long term borrowings of Rs.4.56 Cr. SITPL is moderately aggressive towards its leverage policy and has been funding the working capital requirements through banking limits. NCA/TD (Net cash accruals to total debt) stands low at 0.04 times in FY2021 (Prov) as against 0.02 times in FY2020. Acuité expects the financial risk profile to remain below-average over the medium term period on account of highly leveraged capital structure and scale of operations of SITPL.

- **Working capital intensive nature of operations**

SITPL's working capital cycle is marked by intensive gross current assets (GCA) days in the range of 226-246 days over the last 3 years ending March 31, 2021 (Prov). The GCA days are majorly marked by high inventory and debtor days. The GCA days of 240 days as on March 31, 2021 (Provisional) is on account of inventory days of 121 days and debtors' days of 101

days. The debtors have increased to Rs.67.73 Cr in FY2021 (Prov) against Rs.31.21 Cr in previous year on account of increase in scale of business and impact of Covid-19 pandemic. The high GCA cycle has led to high utilization of around 95.0 per cent of fund based working capital requirement bank lines of Rs.70.00 Cr over the past 12 months ending October, 2021. Acuité believes that the working capital cycle will continue to be intensive over the medium term.

- **Susceptibility to fluctuation in raw material prices**

SITPL profitable margins are susceptible to fluctuations in the prices of major raw material i.e. Raw cotton. Cotton being a seasonal crop, the production of the same is highly dependent upon the monsoon. Thus, inadequate rainfall affects the availability of cotton in adverse weather conditions. Furthermore, any abrupt change in cotton prices due to supply-demand scenario and government regulations of changes in Minimum Support Price (MSP) can lead to distortion of prices and affect the profitability of players across the cotton value chain. Acuité believes that SITPL's business profile and financial profile can be adversely impacted on account of presence of inherent risk of susceptibility of volatility in raw cotton prices, since the industry is highly commoditized.

### **Rating Sensitivities**

#### **Positive**

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged.
- Sustainable improvement in Leverage and Solvency position of the company.
- Sustainable improvement in Gross current assets (GCA) days.

#### **Negative**

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company.

### **Material covenants**

None

### **Liquidity Position: Stretched**

SITPL's liquidity is stretched marked by high utilization of banking lines, working capital intensive nature of business marked by high GCA days. SITPL has generated cash accruals in the range of Rs.0.82-3.47 Cr during last three years ending FY2021 (Prov) as against its 'nil' long term debt obligations for the same period. SITPL's working capital is moderate as evident from Gross Current Asset (GCA) of 240 days as on March, 2021 (Prov) as compared to 246 days as on March, 2020. The current ratio stood at 1.33 times as on 31 March 2021 (Prov) against 1.19 in previous year and the fund based limit remains utilized at 95.0 per cent over the 12 months ended October, 2021. SITPL maintained unencumbered cash and bank balances of Rs.5.70 Cr as on 31 March 2021 (Prov) against Rs.3.81Cr in previous year. SITPL

has deposits with the bank of amount Rs.8.97 Cr as on March 31,2021 (Prov). However, loans to extent of Rs.3.60 Cr has been availed against the deposits. SITPL is expected to generate NCA in range of Rs.2.72-4.79 Cr against modest maturing debt obligations in range of Rs.3.12-4.98 Cr over the medium term. SITPL is expected to generate NCA of around Rs.2.7-3.00 Cr in FY2022 against the repayment obligation of Rs.4.56 Cr arising during the period. As of December, 2021, the obligations been paid on timely basis through the net cash accruals, USL loans towards the repayment obligation. SITPL has availed Covid-19 emergency line of credit in form of working capital term loans of total amount Rs.8.08 Cr in the month of December'2021 to support the cash flows and operations. Any further shortfall in the repayment obligation is expected to be supported by the infusion of funds by the promoter group and sister concerns in the form of unsecured loans (USL).

#### **Outlook: Stable**

Acuité believes that SITPL will continue to benefit over the medium to long term on account of long track record of operations, experience of the management in the industry and recovery in the demand. The outlook may be revised to 'Positive', in case of increase in capacity utilization, sales volumes and realizations leading to higher-than-expected revenues and profitability with improvement in financial risk profile particularly liquidity. Conversely, the outlook may be revised to 'Negative' in case SITPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

#### **Other Factors affecting Rating**

None

#### **Key Financials**

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	265.54	154.46
PAT	Rs. Cr.	3.08	1.37
PAT Margin	(%)	1.16	0.89
Total Debt/Tangible Net Worth	Times	3.31	4.43
PBDIT/Interest	Times	1.65	1.43

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

Not Applicable

#### **Any other information**

None

#### **Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of 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/view-rating-criteria-55.htm>

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Nov 2020	Packing Credit	Short Term	68.00	ACUITE A4 (Reaffirmed)
18 Mar 2020	Packing Credit	Short Term	39.00	ACUITE A4 (Reaffirmed)
03 Jan 2019	Packing Credit	Short Term	39.00	ACUITE A4 (Downgraded from ACUITE A4+)
12 Jan 2018	Packing Credit	Short Term	10.00	ACUITE A4+ (Assigned)

### Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	68.00	ACUITE A4   Reaffirmed

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### About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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