

## Press Release

Sakthi Infra Tex Private Limited

January 27, 2023



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.00	ACUITE B+   Stable   Assigned	-
Bank Loan Ratings	81.00	-	ACUITE A4   Assigned
Bank Loan Ratings	68.00	-	ACUITE A4   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	150.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite 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).

Acuite has assigned its long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the additional Rs.82Cr bank facilities of Sakthi Infra Tex Private Limited. The outlook is '**Stable**'.

#### Rationale for rating

The rating takes into account SITPL's business risk profile marked by its experienced promoters, long standing client relationship and improvement in the scale of operations in FY22. 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 below average financial risk profile, low debt protection metrics, moderately intensive working capital operations and stretched liquidity position.

#### 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

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

## Key Rating Drivers

### Strengths

#### **Experienced management, and long standing client relationships**

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. 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.

#### **Improving operating income, albeit fluctuating profitability margins**

SITPL revenue has been increasing over the years. During FY20 the company has reported Rs.164.62Cr of revenue which is increased to Rs.261.65Cr in FY21 and during FY22 the company has reported Rs.406.94Cr of revenue. This significant improvement in revenue is mainly due to improved demand for fabric in overseas market. The operating margins have been fluctuating mainly due to increase in the raw material prices of yarn. The margins declined from 9.82percent in FY20 to 2.93 percent in FY21 and improved to 3.20 percent in FY22. The operating margins are expected to remain in the similar level over the medium term.

### Weaknesses

#### **Below Average Financial Risk Profile:**

SITPL financial risk profile is below average, marked by a moderate net worth, moderate gearing and debt protection metrics. The net worth of the company stood at Rs.44.31Cr as on March 31, 2022 as against Rs.27.60Cr in previous year. The gearing level deteriorated to 3.20 times as on March 31, 2022 as compared to 2.92 times in previous year. This is on account of increased short term debt and other COVID loans availed. TOL/TNW stood at 4.62 times as on March 31, 2022. Debt/EBITDA is critical at 10.62 times as on March 31, 2022. Interest coverage ratio and debt service coverage ratios stood at 2.01 times and 1.02 times as on March 31, 2022.

#### **Working capital intensive nature of operations:**

SITPL's working capital cycle is moderately intensive marked by gross current assets (GCA) days in the range of 231-215 days over the last 3 years ending March 31, 2022. The GCA days are majorly marked by high inventory and debtor days. The GCA days of 215 days as on March 31, 2022 is on account of inventory days of 87 days and debtors' days of 99 days. The debtors have increased to Rs.101.73 Cr in FY22 against Rs.66.21Cr in previous year on account of increase in scale of business. The high GCA cycle has led to high utilization of bank lines, which stood at ~88.0 per cent of for the past 12 months ending November, 2022.

#### **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

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged.
- Any deterioration in working capital cycle and liquidity profile of the company.
- Any weakening of financial risk profile of the company

### Material covenants

None

### Liquidity: Stretched

SITPL's Liquidity position is stretched marked by modest net cash accruals against repayment obligations. The company generated net cash accruals of Rs.4.77Cr in FY22 against repayment obligations of Rs.4.56Cr for the same period. SITPL has modest unencumbered cash and bank balance of Rs.0.48 Cr. in its current accounts with the bank and current ratio of 1.30 times as on March 31, 2022. The company is expected to generate NCA in range of Rs.2.72-4.79 Cr against maturing debt obligations in range of Rs.5.05-5.10Cr over the medium term. Bank Limits has been utilized at an average of 88 percent during the past 12 months ending November,2022. Any 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). Acuite believes that the liquidity position of the firm will remain stretched over the medium term.

### Outlook: Stable

Acuite believes that SITPL will continue to benefit over the medium term from its experienced management and long standing client relationships. The outlook may be revised to 'Positive', in case of higher-than-expected revenues and profitability with improvement in financial risk profile particularly liquidity. Conversely, the outlook may be revised to 'Negative' in case of 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 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	406.94	261.65
PAT	Rs. Cr.	4.36	2.19
PAT Margin	(%)	1.07	0.84
Total Debt/Tangible Net Worth	Times	3.27	3.38
PBDIT/Interest	Times	2.01	1.82

### 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>
- 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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Feb 2022	Packing Credit	Short Term	68.00	ACUITE A4 (Reaffirmed)
03 Nov 2020	Packing Credit	Short Term	68.00	ACUITE A4 (Reaffirmed)
18 Mar 2020	Packing Credit	Short Term	39.00	ACUITE A4 (Reaffirmed)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	57.00	ACUITE A4   Assigned
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE B+   Stable   Assigned
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE A4   Assigned
Canara Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	68.00	ACUITE A4   Reaffirmed
Canara Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE A4   Assigned

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### About Acuité Ratings & Research

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