Press Release

Saraansh Suitings Private Limited

April 26, 2019

Rating Downgraded

Total Bank Facilities Rated*	Rs. 12.50 Cr.
Long Term Rating	ACUITE BB/ Outlook:Stable (Downgraded from ACUITE BB+/Stable)

** Refer Annexure for details*

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE BB**' **(read as ACUITE double B)** from **'ACUITE BB+' (read as ACUITE BB plus)** to the Rs. 12.50 crore bank facilities of Saraansh Suitings Private Limited (SSPL). The outlook is **'Stable'**.

The rating downgraded reflects weakening of the company's business risk profile marked by steady decline in operating revenue in the past two years ending FY2017-2018 and elongated working capital cycle.

The rating continues to reflect the group's healthy financial risk profile driven by comfortable gearing and healthy debt protection metrics. The ratings also factor in the promoters' extensive experience in the textile industry and healthy relationships with customers and suppliers. These strengths are partially offset by intense competition in the domestic and export market.

Incorporated in 2012, SSPL is promoted by Mr. Sandeep Chordia, Mr. Sunil Chordia and Mr. Sampat Lal Chordia, among others. The company manufactures cotton and blended suiting fabric using air jet technology and caters to the ready-made garment market in India and overseas. Additionally, SSPL undertakes job work for other manufactures and trades in grey and finished fabric material. The company has its manufacturing unit in Bhilwara (Rajasthan) with 52 looms installed and annual capacity of 7 lakh meters.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SSPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

  The key promoter of SSPL's, Mr Sampat Lal Chordia has more than three decades of experience in textile industries and is ably supported by Mr. Sushil Chordia and Mr. Sandeep Chordia in day-to-day business activities. The extensive experience of the promoters has helped them establish longstanding relationship with reputed clientele including Raymond Group and Arvind Limited. Further, SSPL caters to export market based in Mexico, Chile and Dubai. This has helped the company to improve its profit margins from 11.84 percent in FY2017 to 15.64 percent in FY2018.

- **Healthy financial risk profile**

  SSPL financial risk profile is marked by modest net worth, comfortable gearing and healthy debt protection metrics. The net worth stood at Rs. 11.29 crore as on 31 March, 2018 compared to Rs. 10.31 crore as on 31 March, 2017. The gearing had improved to 0.88 percent in FY2018 from 1.53 percent in the previous year on account of repayment of term loans and lower working capital borrowings. The debt protection metrics remained comfortable marked by interest coverage ratio of 3.74 times as on 31 March, 2018 as against 2.99 times as on 31 March, 2017. The debt service coverage ratio stood at 1.38 times as on 31 March, 2018 as against 1.27 times as on 31 March, 2017. The financial risk profile is expected to remain comfortable in absence of significant debt funded capex in the medium term.

Weaknesses

• **Continuous decline in operating revenue**
The operating revenue of SSPL has declined from Rs.42.39 Crore in FY2017 to Rs.29.60 Crore in FY2018. Further, the company has achieved operating revenue of Rs.19.91 crore during April-January 2019 (provisional). The steady decline in revenue is due to change in business model with the company focusing on exports and job work for reputed clientele. Going forward, company's ability to ramp up its sale will remain a key monitorable.

• **Working capital intensive nature of business**
The working capital operations of SSPL are intensive with gross current assets (GCA) of 154 days in FY2018 as against 152 days in the previous year. The inventory declined from 109 days to 77 days in FY2018.However, credit period extended to clients increased to 109 days as against 52 days in the previous year. Going forward, the company is expected to benefit from change in business model with majority of production being order backed and with advance payment on its export order. The company's ability to improve its working capital operations will remain a key monitorable.

Liquidity Profile

SPPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3.22 crore during FY2017-18, while it's maturing debt obligations stood at Rs.1.99 crore over the same period. The cash accruals of the company are estimated to remain comfortable to meets its repayment obligations during 2019-21.The cash credit limit in the company remains utilised at around `63 percent during the last 6 months period ended December 2018. The company maintains unencumbered cash and bank balances of Rs.0.11crore as on March 31, 2018. The current ratio of the company stands modest at 1.29 times as on March 31, 2018.

Outlook: Stable

Acuité believes that SSPL will maintain a 'Stable' outlook over the medium term owing to its promoters' extensive experience in the industry and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the company achieves more than envisaged sales and profitability while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the revenue profile deteriorates further or working capital gets elongated.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	29.60	42.39	38.53
EBITDA	Rs. Cr.	4.63	5.02	5.32
PAT	Rs. Cr.	0.99	0.95	1.03
EBITDA Margin	(%)	15.64	11.84	13.81
PAT Margin	(%)	3.33	2.23	2.67
ROCE	(%)	10.21	11.29	11.64
Total Debt/Tangible Net Worth	Times	0.88	1.53	1.78
PBDIT/Interest	Times	3.74	2.99	2.63
Total Debt/PBDIT	Times	2.10	3.08	3.12
Gross Current Assets (Days)	Days	154	152	150

Any other information

"Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups"

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-6.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
14-Feb-2018	Term Loan	Long Term	3.50	ACUITE BB+/ Stable (Assigned)
	Cash Credit	Long Term	9.00	ACUITE BB+/ Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB / Stable (Downgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.50 (Reduced from Rs 3.50 Crore)	ACUITE BB / Stable (Downgraded)
Proposed Long Term	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB / Stable (Assigned)

Contacts

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About Acuité Ratings & Research:
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