

Press Release

SRI TEXTILE ERODE PRIVATE LIMITED

9 March, 2018



Rating Assigned

| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 52.00 Cr. |
| Long Term Rating | SMERA BB+ / Outlook: Stable |
| Short Term Rating | SMERA A4+ |

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB+**' (read as **SMERA double B plus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 52.00 crore bank facilities of SRI TEXTILE ERODE PRIVATE LIMITED. The outlook is '**Stable**'.

The Tamil Nadu-based STEPL (formerly known as Sri Textiles), was established in 1990 as a proprietorship firm and converted to private limited in 2008. The company, promoted by Mr. Sengodan Vengadesan and Mrs. Venkatesan Padmavathy, is engaged in the manufacturing of fabrics and readymade garments at Tamil Nadu. STEPL has two manufacturing facilities each for garments and fabrics.

Key Rating Drivers

Strengths

• Experienced management

STEPL benefits from its established track record and extensive experience of its promoters. The Directors, Mr. Sengodan Vengadesan and Mrs. Venkatesan Padmavathy possess experience of over two decades in the textile industry.

• Moderate business risk profile

The operating income increased to Rs. 141.50 crore in FY2017 from Rs. 120.94 crore in FY2016 and Rs. 96.57 crore in FY2015 owing to increase in the number of clients and manufacturing capacity. For the period April to January 2017 the company reported operating income of Rs. 150.00 crore (Provisional). The operating margins stood at 7.01 per cent in FY2017 as against 6.83 per cent in FY2016. The PAT margin has been thin at 0.52 per cent in FY2017 due to high interest obligation. The business risk profile is supported by the company's established relations with reputed players in the industry namely Reliance Trends, Jockey, Indian Terrain among others. SMERA believes that the company will maintain a stable outlook over the medium term on the back of completed capex and reputed customer base.

Weaknesses

• Below average financial risk profile

STEPL has below average financial risk profile marked by tangible net worth of Rs. 16.11 crore as on 31 March, 2017 as against Rs. 15.37 crore as on 31 March 2016. The adjusted gearing stood at 2.75 times as on 31 March, 2017 as against 2.53 times as on 31 March, 2016. The total debt of Rs. 51.10 crore as on 31 March, 2017 comprises term loans of Rs. 9.28 crore, unsecured loans of Rs. 6.82 crore and working capital loan of Rs. 35.00 crore. The Interest Coverage Ratio stood at 1.59 times in FY2017 as against 1.49 times for FY2016. The Debt Service Coverage Ratio stood at 1.08 times for FY2017 as against 1.06 times for FY2016.

• Working capital intensive operations

STEPL has working capital intensive operations marked by Gross Current Asset (GCA) days of 148 in FY2017 as against 169 days in FY2016. The Inventory days stood at 87 in FY2017 as against 113 in FY2016 while debtors were 64 days in FY2017 and 49 days in FY2016.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of STEPL to arrive at the rating.

Outlook: Stable

SMERA believes that STEPL will maintain a stable outlook over the medium term on the back of its promoter's extensive experience in the industry and reputed clientele. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues while maintaining profitability resulting in improved financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues, profitability or further elongation of the working capital cycle.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 141.50 | 120.94 | 96.57 |
| EBITDA | Rs. Cr. | 9.93 | 8.26 | 8.11 |
| PAT | Rs. Cr. | 0.74 | 0.00 | 0.06 |
| EBITDA Margin | (%) | 7.01 | 6.83 | 8.40 |
| PAT Margin | (%) | 0.52 | 0.00 | 0.06 |
| ROCE | (%) | 11.73 | 10.86 | 20.01 |
| Total Debt/Tangible Net Worth | Times | 3.17 | 2.93 | 1.88 |
| PBDIT/Interest | Times | 1.59 | 1.49 | 1.79 |
| Total Debt/PBDIT | Times | 5.08 | 5.33 | 3.67 |
| Gross Current Assets (Days) | Days | 148 | 169 | 133 |

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------|--------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 39.00* | SMERA BB+ / Stable |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 1.89 | SMERA BB+ / Stable |

| | | | | | |
|------------------------|----------------|----------------|----------------|------|--------------------|
| Term loans | Not Applicable | Not Applicable | Not Applicable | 1.75 | SMERA BB+ / Stable |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 2.80 | SMERA BB+ / Stable |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 1.56 | SMERA BB+ / Stable |
| Letter of credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | SMERA A4+ |

**Includes Sublimit of PC/PCFC to the extent of Rs. 20 crore, FBN/FBP/FBD/AACB/PSFC to the extent of Rs. 25 Crore and FLC/ILC to the extent of Rs. 5 crore..*

Contacts

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|--|---|
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ABOUT SMERA

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