

Press Release

ESSPAL INTERNATIONAL PRIVATE LIMITED (EIPL)

22 March, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 54.50 Crore
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (**read as SMERA triple B minus**) and short term rating of '**SMERA A3**' (**read as SMERA A three**) on the Rs. 54.50 crore bank facilities of Esspal International Private Limited (EIPL). The outlook is '**Stable**'.

Incorporated in 2009, Esspal International Private Limited (EIPL) a Rajasthan-based company is engaged in the processing of yarn and manufacturing of grey fabric. The company is promoted by Mr. Manish Lath and Mrs. Rashmi Devi Lath. The manufacturing facility is located at Bhilwara, Rajasthan.

Key Rating Drivers

Strengths

- **Experienced management**

The company is led by Directors, Mr. Manish Lath and Mrs. Rashmi Devi who possess experience of over two decades in the textile industry. They are supported by Mr. Hriday Lath, son of Mr. Manish Lath along with a second line of management with experience of over two decades in the industry. This has helped the company establish long term relations with suppliers and customers.

- **Consistent growth in revenues**

EIPL's revenues grew to Rs. 163.32 crore in FY2017 from Rs. 146.16 crore in FY2016 as a result of capital expenditure and increase in customers in Haryana and Punjab. The operating margin stood at 9.25 percent in FY2017 as against 10.38 percent in FY2016. The PAT margins were thin at 0.67 percent in FY2017 as against 0.80 percent in FY2016, mainly due to high finance cost. The company registered revenue of Rs. 170.00 crore from April to February 2018. SMERA believes that EIPL's scale of operations will reflect an upward trend over the medium term on the back of its completed capex and addition of home textiles to the revenue profile.

- **Moderate financial risk profile**

The net worth stood at Rs. 37.84 crore as on 31 March, 2017 as against Rs. 33.73 crore in the previous year. This includes unsecured loans of Rs. 9.85 crore as on 31 March, 2017 and Rs. 6.83 crore as on 31 March, 2016 (Quasi equity). The gearing improved to 1.22 times as on 31 March, 2017 from 1.33 times as on 31 March, 2016. The Interest Coverage Ratio stood moderate at 1.96 times in FY2017 as against 1.81 times in FY2016.

Weaknesses

• Working capital intensive operations

The operations are working capital intensive marked by GCA days of 205 as on 31 March, 2017 as against 182 as on 31 March, 2016. This is mainly due to high debtors of 165 days as on 31 March, 2017 as against 144 days as on 31 March, 2016. The inventory days stood at 39 as on 31 March, 2017 as against 37 as on 31 March, 2016. The company provided extended credit to select customers due to demonetisation which is reflected in more than six months debtors of Rs. 8.02 crore as on 31 March, 2017. The same has been realised in the current year.

Analytical Approach

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

Outlook- Stable

SMERA believes that EIPL will maintain a stable outlook over the medium term owing to its experienced management and established market position. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenue while sustaining profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues, profit margins or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	163.32	146.16	147.43
EBITDA	Rs. Cr.	15.10	15.17	9.45
PAT	Rs. Cr.	1.09	1.17	1.20
EBITDA Margin	(%)	9.25	10.38	6.41
PAT Margin	(%)	0.67	0.80	0.82
ROCE	(%)	11.63	11.94	18.91
Total Debt/Tangible Net Worth	Times	1.22	1.33	1.82
PBDIT/Interest	Times	1.96	1.81	1.67
Total Debt/PBDIT	Times	3.01	3.03	5.06
Gross Current Assets (Days)	Days	205	182	197

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.smerra.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	25.00*	SMERA BBB-/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	7.50	SMERA BBB-/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.85	SMERA BBB-/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.98	SMERA BBB-/Stable (Assigned)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	0.17	SMERA BBB-/Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	15.00#	SMERA A3 (Assigned)

*includes sublimit of packing credit limit upto Rs. 10 Cr.

#includes sublimit of bank guarantee upto Rs. 5 Cr. and foreign bill negotiation upto Rs. 4 Cr.

Contacts

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Leena Gupta Analyst, Rating Operations Tel: 022-67141172 leena.gupta@smera.in	

ABOUT SMERA

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