

Press Release

Esspal International Private Limited

April 15, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	10.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 10.00 crore bank facilities of Esspal International Private Limited (EIPL). The outlook is '**Stable**'.

The assignment of rating factors in the company's improved performance from the previous year, adequate liquidity and moderate financial risk profile further the experienced management with more than two decades of experience supported by second line of management also supports the rating. However the above factors are underpinned by the working capital intensive operations and moderate customer concentration risk.

About the Company

Based in Bhilwara, Rajasthan. Esspal International Private Limited (EIPL) was established in 2009. The company is engaged in manufacturing of grey fabric and processing of yarn. The company is led by directors, Mr. Manish Lath and Mrs. Rashmi Devi Lath, having experience of over two decades in the textile industry and Mr. Hriday Lath, son of Mr. Manish Lath, who has experience of 8 years in the textile industry. Company has a manufacturing facility in Bhilwara, Rajasthan with a licensed capacity of 180 lakhs meter of grey fabric per annum.

Analytical Approach

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

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. The management has gained valuable experience since the inception of the company and has developed strong relationships with customers and suppliers. This has enabled them to navigate the market and helped grow the company to the scale it is presently operating at. Going forward the

company will benefit from the relationships fostered by the management and would be able to grow on a sustainable basis.

Improvement in Revenue Profile and Profitability

The company has been able to achieve around Rs. 265.29 Cr of operating income as per the estimated figures provided for the current fiscal FY 2022 ending March 2022. The revenue profile has also diversified since the company has increased the share of yarn sales in the revenue mix wherein the realization period is lower and consequently has improved its debtor cycle. With the increase in revenue the company has also improved its profitability margins in the current year wherein PAT margins are now around 2% as per the estimates given for FY 2022 as against 0.8% in FY 2021 (Audited).

Moderate financial risk profile

The company has a moderate financial risk profile marked by its moderate net worth, comfortable gearing and low coverage indicators. The company had a net worth of Rs. 48.18 Cr in FY 2021 which includes Rs. 10.00 Cr as quasi equity. Debt to Equity ratio has moderated from 0.99 times in FY 2019 to 1.05 times in FY 2021 on account of increase in total debt. The total debt of Rs. 50.83 Cr in FY 2021 consists of Rs. 7.26 Cr of long term debt, Rs. 3.00 Cr of Unsecured loan, Rs. 36.82 Cr of short term debt and Rs. 3.75 Cr of CPLTD. The interest coverage ratio has improved from 1.86 times in FY 2020 to 1.98 times in FY 2021. TOL/TNW has improved from 1.75 times in FY 2020 to 1.67 times in FY 2021 due to decrease in trade payables and advance from customers and increment in net worth. Debt-EBITDA ratio has moderated to 4.56 times in FY 2021 from 4.35 times in FY 2020.

Weaknesses

Working capital intensive operations

Working capital cycle of the company has condensed in FY 2021 but remains at elevated levels. GCA days for the company stood at 221 in FY 2021 as compared to 244 in FY 2020. The elevated GCA days is a result of high debtor realization period for the company. The company primarily sells two products yarns and grey fabrics. The debtor realization for yarns is low and stands approximately around 40-45 days at the most. For Grey fabric the debtor realization period is higher than yarns due to supply chain considerations. As per the YTD figures shared the debtor realization has been brought down since this year as was the case in FY 2021 the sale of yarns has increased wherein the debtor realization period is low and hence the team expects the GCA days to drop down in FY 2022. Average bank utilization levels for cash credit facility stood at 91.79% for the period between April 2021 and February 2022.

Customer Concentration Risk

The company has mild customer concentration risk since in FY 2021 the top 10 customers accounted for around 46% of total sales. Going forward the company needs to diversify its customer portfolio to mitigate the concentration risk and have security regarding timely realizations.

Rating Sensitivities

- Increase in input cost.
- Elongation of working capital cycle.

Material covenants

None.

Liquidity: Adequate

Company has adequate liquidity marked by its Net Cash Accruals to its maturing debt obligation. In FY 2021 Company generated cash accruals of Rs. 5.07 Cr against CPLTD of Rs. 3.75 Cr. Going forward the company is expected to generate cash accruals of Rs. 7.91 Cr and Rs. 8.56 Cr against CPLTD of Rs. 2.71 Cr and Rs. 2.20 Cr in FY 2022 and 2023 respectively. Company had cash and bank balance of Rs. 0.06 Cr as of March 2021 and is maintaining Rs.

1.51 Cr as of March 2022 as per the YTD figures shared. Investment of Rs. 1.27 Cr contains Rs. 0.77 Cr of FD investment of which Rs. 0.50 Cr is lien marked as margin money for LC facility.

Outlook: Stable

Acuite 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	169.99	147.85
PAT	Rs. Cr.	1.35	1.18
PAT Margin	(%)	0.80	0.80
Total Debt/Tangible Net Worth	Times	1.05	1.04
PBDIT/Interest	Times	1.98	1.86

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>
- 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
17 Jun 2019	Cash Credit	Long Term	25.00	ACUITE BBB- (Withdrawn)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Withdrawn)
	Term Loan	Long Term	4.98	ACUITE BBB- (Withdrawn)
	Term Loan	Long Term	1.85	ACUITE BBB- (Withdrawn)
	Proposed Bank Facility	Long Term	0.17	ACUITE BBB- (Withdrawn)
	Term Loan	Long Term	7.50	ACUITE BBB- (Withdrawn)
06 Jun	Cash Credit	Long Term	25.00	ACUITE BBB- (Issuer not co-operating*)
	Term Loan	Long Term	1.85	ACUITE BBB- (Issuer not co-operating*)
	Term Loan	Long Term	4.98	ACUITE BBB- (Issuer not co-operating*)

2019	Proposed Bank Facility	Long Term	0.17	ACUITE BBB- (Issuer not co-operating*)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Issuer not co-operating*)
	Term Loan	Long Term	7.50	ACUITE BBB- (Issuer not co-operating*)
22 Mar 2018	Cash Credit	Long Term	25.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	7.50	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	1.85	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	4.98	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	0.17	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Tamilnad Mercantile Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

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