

Press Release

Sara Creation Inc (SCI)

April 11, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 6.00 Cr.
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 6.00 crore bank facilities of Sara Creation Inc.

SCI, established in 2002, engaged in the manufacturing of Readymade Garments. The partners Mr. Krishan Kumar Saklani and Mr. Easow Mathew have more than three decade of experience in the textile industry. The firm has 4 manufacturing unit located at Noida having capacity of 18 lacs pieces per year.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

SCI was established as a partnership firm in 2002 by Mr. Krishan Kumar Saklani and Mr. Easow Mathew. The partners have more than three decades of experience in the textile industry. Also, the firm has track record of 16 years and has established relationships with the suppliers & customers.

- **Low utilization of bank facilities**

The average utilization of working capital facilities for the six months ending January, 2018 by SCI was rather low at 37.20 percent. However the creditor days increased to 283 days in FY2017 compared to 183 days in FY2016.

- **Moderate Financial Risk Profile**

The net worth of SCI was Rs. 5.53 crore as on March 31, 2017 as against Rs. 4.32 crore as on March 31, 2016. The debt-equity was 1.35 times as on March 31, 2017 and 1.40 times as on March 31, 2016. ICR (Interest Coverage Ratio) stood healthy at 3.17 times for FY2017 and FY 2016.

Weaknesses

- **Declining Sales and intense competition in the industry**

The sales of the firm have been declining continuously over the last three years from Rs. 37.92 in FY2015 to Rs. 28.52 in FY2016 to Rs. 22.64 in FY2017. SCI operates in a highly competitive segment of the industry with a large number of players which limits the profit margins.

- **Foreign exchange fluctuation Risk**

The firm is a 100 percent export unit and is exposed to foreign exchange fluctuation risk. Although the firm has availed term loan in foreign currency helps in natural hedging.

Analytical Approach

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

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	22.64	28.52	37.92
EBITDA	Rs. Cr.	1.64	1.85	1.69
PAT	Rs. Cr.	0.34	0.81	1.00
EBITDA Margin	(%)	7.25	6.47	4.46
PAT Margin	(%)	1.50	2.84	2.63
ROCE	(%)	10.29	16.33	39.27
Total Debt/Tangible Net Worth	Times	1.35	1.40	0.84
PBDIT/Interest	Times	3.17	3.17	5.58
Total Debt/PBDIT	Times	4.53	3.29	1.75
Gross Current Assets (Days)	Days	122	86	82

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

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 (Up to 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. Cr.)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A4
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4

Contacts

Analytical	Ratings 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
Ayushi Rathore Analyst - Rating Operations Tel: 022-67141336 ayushi.rathore@smera.in	

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