

Press Release

Suresh Traders

June 06, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 7.55 Cr.
Long Term Rating	ACUITE B/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) on the Rs.7.55 crore bank facilities of Suresh Traders. The outlook is '**Stable**'.

Suresh Traders, a Bangalore based proprietorship firm was established in the year 2003 by Mr. Suresh. The firm is engaged in the manufacturing of curtains and trading in furnishing fabrics. The firm sells its products through whole sellers in South India, and it also operates three retail outlets in Bangalore. The firms manufacturing facility is in Bangalore with a stitching capacity of 1000 pieces per day.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

Suresh Traders was established as a proprietorship firm in 2003 by Mr Suresh; he is having more than two decades of experience in the home furnishings and fabrics. Acuite believes that, promoter experience in the industry coupled with long track record of operations helped the firm to maintain long standing relationship with suppliers and customers.

- **Moderate growth in revenues**

Suresh Traders reported compound annual growth rate (CAGR) of 20 per cent in revenues to Rs.19.0 crores (on provisional basis) in FY 2018 from Rs.10.9 crores in FY2015. Growth in revenues is attributed to increase in orders from vintage clients besides retail revenues from two new retail outlets opened in FY2018. Of its revenues, around 75 per cent is from Dealer supplies, and balance from three retail outlets in and around Bengaluru. Acuite believes that, revenue profile of Suresh Traders is expected to improve to about Rs.30.0 crores to Rs.35.0 crores over the medium term supported by the growth in the housing segment, improvement in standard of living and affordability for the home furnishings.

Weaknesses

- **Weak financial risk profile**

Suresh Traders financial risk profile is marked by high gearing (debt-to-equity) of about 5.0 times as of March 31, 2017 on account of modest net worth of Rs.2.29 crore (includes Quasi equity of Rs.1.50 crore) and high dependence on outside loans to fund its working capital requirements. Total outside liabilities to total net worth (TOL/TNW) stood high at 7.26 times as on 31 March 2017. On provisional basis, gearing and TOL/TNW are expected to be in similar levels in FY2018 due to low accretion to reserves and stretch in trade payables. Of the total debt of Rs.11.54 crore as on 31 March, 2017, long term debt constitute Rs.0.59 crore, unsecured loans of Rs.6.47 crore and short term borrowings of Rs.4.49 crore. Interest coverage ratio (ICR) is moderate at 1.32 times in FY2017. Acuite believes that, ability of the firm to improve its capital structure by infusion of own funds would be the key rating sensitivity in the medium term.

- **Working capital intensive operations**

Operations of the firm are working capital intensive marked by high gross current assets (GCA) of

372 days in FY2017. The same is on account of high inventory holding period and debtor days which stood at 152 days and 150 days respectively in FY2017. The firm has stretched its trade payables to 150 days in FY2017 on account of delayed payments from customers; further, the GCA days are at similar levels in FY2018 too. The firm has invested Rs.4.15 crore on purchase of two outlets in FY2018; this is majorly funded out of internal accruals, bank loan and unsecured loans from family members and relatives. High GCA resulted in full utilisation of its bank lines; also, there were instances of over drawings in cash credit account, though the same is regularised within five days' time. Further, the firm is planning to open five more retail outlets in Bangalore in the near term; Acuite believes that the working capital intensity is expected to further increase with requirement of additional stock and receivables position, though to some extent mitigated by additional borrowings that the firm is looking to finance from the Bank.

• Competitive and fragmented nature of the industry

Suresh Traders is exposing to competition from presence of several players in fabric industry coupled with minimal entry barrier and regulations.

Analytical Approach

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

Outlook: Stable

Acuite believes that the Suresh Traders will maintain stable outlook in the medium term on account of the established presence and extensive experience of the promoters in the textile industry. The outlook may be revised to 'Positive' in case if the firm registers significant growth in its revenues while improving its profitability and capital structure by equity infusion. Conversely, the outlook may be revised to 'Negative' in case of stretch in its receivables or deterioration of its working capital management and liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	14.82	12.96	10.92
EBITDA	Rs. Cr.	2.17	1.40	0.82
PAT	Rs. Cr.	0.45	0.38	0.33
EBITDA Margin	(%)	14.64	10.81	7.53
PAT Margin	(%)	3.04	2.97	2.98
ROCE	(%)	17.24	17.83	34.06
Total Debt/Tangible Net Worth	Times	5.03	3.65	1.05
PBDIT/Interest	Times	1.32	1.48	1.92
Total Debt/PBDIT	Times	5.32	5.88	2.76
Gross Current Assets (Days)	Days	372	356	252

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.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	5.15	ACUITE B / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.40	ACUITE B / Stable

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About Acuité Ratings & Research:

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