

Press Release

ESM Textiles

July 06, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 5.25 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.5.25 crore bank facilities of ESM Textiles (ESMT). The outlook is '**Stable**'.

The Tamil Nadu-based, ESMT was established in 1965 by Mr. E.S. Marimuthu as a partnership firm. The firm is now managed by Mr. Erulappan (his son) and Mrs. E Rajeshwari (his daughter-in-law). It is engaged in manufacture of ladies readymade garments. The firm derives 90 percent of its revenue from domestic market and rest from overseas markets.

Key Rating Drivers

Strengths

- **Experienced management and established track record of business**

ESMT was incorporated in 1965 and has a long standing established track record with suppliers and customers. Mr. Erullapan has experience of two and half decade in the said line of business.

- **Reputed clientele**

The firm has long standing relationships with reputed retailers such as Pothys, The Chennai Silks, Jeyachandran Textiles, among others. It caters to around 150 customers of which 90 percent are from domestic market and rest from overseas markets.

Weaknesses

- **Average financial risk profile**

ESMT's has moderate financial risk profile marked by tangible net worth of Rs.0.72 crore as on 31 March, 2017 as against Rs.0.91 crore as on 31 March, 2016. The debt to equity ratio stood at 5.30 times as on 31 March, 2017 as against 4.03 times as on 31 March, 2016. The debt of Rs.3.84 crore mainly consists of working capital borrowing of Rs.3.17 crore and term loan of Rs.0.70 crore as on 31 March, 2017. Interest Coverage Ratio (ICR) stood at 1.11 times for FY2017 as against 1.49 times in FY2016. Debt Service Coverage Ratio (DSCR) stood at 0.84 times for FY2017 as against 1.33 times in FY2016. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 10.59 times as on 31 March, 2017 as against 8.55 times as on 31 March, 2016. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.01 times as on 31 March, 2017 as against 0.05 times as on 31 March, 2016.

- **Working capital intensive operations**

ESMT's operations are working capital intensive marked by high Gross Current Assets (GCA) of 223 days in FY2017 compared to 187 days in FY2016. The GCA days are mainly dominated by high inventory holding of 223 days in FY2017 compared to 187 days in FY2016. The average cash credit utilisation for the past six months stood at ~95 percent. Acuite believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Analytical Approach

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

Outlook: Stable

Acuite believes that the outlook on ESMT will remain 'Stable' over the medium term on account of the experienced management and established track record of operations. The outlook may be revised to 'Positive' in case the firm maintains a comfortable capital structure and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in capital structure or working capital operations.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	9.17	8.13	7.42
EBITDA	Rs. Cr.	0.36	0.56	0.40
PAT	Rs. Cr.	0.04	0.04	0.06
EBITDA Margin	(%)	3.92	6.93	5.45
PAT Margin	(%)	0.43	0.48	0.83
ROCE	(%)	8.42	11.24	19.11
Total Debt/Tangible Net Worth	Times	5.30	4.03	4.05
PBDIT/Interest	Times	1.11	1.49	1.67
Total Debt/PBDIT	Times	9.94	6.29	6.29
Gross Current Assets (Days)	Days	285	320	183

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/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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	4.50	ACUITE B / Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE B / Stable (Assigned)

Contacts

Analytical	Rating Desk
<p>Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in</p> <p>Salome Farren Analyst - Rating Operations Tel: 022-67141164 salome.farren@acuiterratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.