

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

Acuité 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. Acuité believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Analytical Approach

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

Outlook: Stable

Acuité 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 maybe 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)

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About Acuité Ratings & Research:

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