

Press Release

Sadhana Suitings Private Limited

August 27, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 17.51 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE BB minus**) on the Rs. 17.51 crore bank facilities of Sadhana Suitings Private Limited. The outlook is '**Stable**'.

Sadhana Suitings Private Limited was established in 2004. The company is based at Bhilwara in Rajasthan. SSPL is engaged in the production of readymade fabrics and suitings. The company currently has 48 looms working at their manufacturing facility. The company purchases 100% of their raw materials locally and is currently supplying their products to all over India. Sadhana Suitings Private Limited has been mainly set up to be established as a export house with state of the art modern machinery, against its sister concern company - Sadhana Sulz Fab Private Limited, set up to be a major local player operating with traditional machinery

Key Rating Drivers

Strengths

• Experienced Management

Experienced Management Since the establishment of the company in 2004, it is engaged in manufacturing of readymade fabrics and suitings. The promoters of the firm Mr. Sunil Kumar Chordia and Mr. Anil Kumar Chordia have more than two decades of experience in the fabric & suiting industry. Prior to 2004, the promoters were managing a firm which was also into manufacturing of readymade fabrics & suitings since 1994. Promoter experience in the fabric & suiting industry has benefitted the firm in maintaining long standing relationship with the customers for more than a decade, reflected in the moderate revenue growth from Rs. 6.62 crore in FY2016 to Rs. 15.30 crore in FY2018 (Provisional) on account of repeat orders from the vintage clients.

• Steady increase in revenues

SSPL has observed a steady increase in the revenues from Rs. 6.62 crore in FY2016 to Rs. 15.30 crore in FY2018 (Provisional). This has been possible due to the capital expenditure incurred by the company in recent years to expand their production capacity to earn more revenue. The company is also looking forward to establish itself as an exporter of fabrics & suitings. Even though the operating margins are falling, the PAT margins have been increasing from 1.65 percent in FY2016 to 2.97 in FY2018 (Provisional).

Weaknesses

• Intensive working capital cycle

Working capital cycle of the firm is intensive marked by gross current assets of 227 days in FY2018 (Provisional) against 137 days in FY2017. It offers credit period of about 60-90 days with receivable days of about 117 days in FY2018 (Provisional) as against 103 days in FY2017. The firm maintains an inventory of 60 - 90 days. The same led to utilization of bank limits at 90 percent from the last six months through March 2018. Acuite believes that, the firm's working capital cycle is expected to be at similar levels over the medium term supported by healthy clientele.

• Modest scale of operations with fall in operating margins

Despite being in operations since 2004, revenues of the company remained modest in the range of Rs. 6.00 - 16.00 crore from the last three year through FY2018 (Provisional). Further EBITDA margins were low on account of high completion in the textile business. Further, operating margins are dipping in

the range of 1.00 to 1.50 percent during FY2016-FY2018. This is mainly on account of raw material price fluctuation and change in the government policies. Further, the firm made net margin of around 2.97 - 1.65 percent for the last three years through FY2018. Ability of the firm in maintaining stable operating margins would be the key rating sensitivity factor over the medium term.

• **Competitive and fragmented industry**

SSPL operates in a highly competitive and fragmented industry and is exposed to increasing competition from both - the organized as well as unorganized players, thus limiting the pricing flexibility and the margins.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the Sadhana Suitings Private Limited to arrive at this rating.

Outlook: Stable

Outlook: Stable Acuite believes that the SSPL would continue to benefit over the medium term from its promoters' extensive industry experience and healthy relations with customers and suppliers. The outlook may be revised to 'Positive' if the company generates substantial and sustainable revenues or operating margins thereby resulting in improvement in its existing business risk profiles especially market position. Conversely, the outlook may be revised to 'Negative' if the company's working capital cycle further deteriorates resulting in weakening of its existing financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	15.30	13.29	6.62
EBITDA	Rs. Cr.	2.50	2.28	1.18
PAT	Rs. Cr.	0.45	0.30	0.11
EBITDA Margin	(%)	16.32	17.12	17.84
PAT Margin	(%)	2.97	2.28	1.65
ROCE	(%)	8.92	11.16	9.85
Total Debt/Tangible Net Worth	Times	2.31	1.92	2.44
PBDIT/Interest	Times	2.58	3.11	2.71
Total Debt/PBDIT	Times	6.29	3.23	6.73
Gross Current Assets (Days)	Days	227	138	242

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

CARE, vide its press release dated June 22, 2018 had denoted the rating of Sadhana Suitings Private Limited as "CARE B+; ISSUER NOT COOPERATING" on account of lack of adequate information required for monitoring of ratings.

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.90	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	7.76	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.85	ACUITE BB- / Stable

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About Acuité Ratings & Research:

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