

Press Release

Stanfab Apparels Private Limited

September 05, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 58.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 58.00 crore bank facilities of Stanfab Apparels Private Limited. The outlook is '**Stable**'.

Stanfab Apparels Private Limited (SAPL) was set up in 1993 by Mr. E R Eswaran. The company manufactures and exports nightwear, T-shirts, shirts, and trousers for men, women, and kids. The company exports its products to regions such as EU, USA, Australia, Brazil, and Japan. The company has 11 manufacturing units located in and around Chennai and 1 unit in Tirupur (Tamil Nadu) with installed capacity to manufacture eleven lac pieces/month.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and stable revenue profile**

Mr. E R Eswaran has experience of around three decades in the readymade garment industry. The daily operations of the entity are managed by Mr. Uvaraj (CEO) who has more than a decade of experience in SAPL, and is being awarded with C Text ATI professional qualification from The Textile institute - Manchester, UK. SAPL's revenue is flat at around Rs.150.00 crore over the past four years through FY2018; primarily they are attributed to slow-down in readymade garment segment due to implementation of Goods and Services Taxes (GST), demonetisation and reduction in duty drawback to 2 percent from 7 percent in October 2017, though compensated to some extent in reduction of GST on inputs. SAPL reported revenues of about Rs.151.66 crore (Provisional) in FY2018 against Rs.151.55 crore in FY2017. Acuité believes that the revenue growth is expected to be insignificant on the back of intense competition from players from Bangladesh and Vietnam, besides the duty impact affecting the profitability.

- **Comfortable financial risk profile**

Comfortable financial risk profile is marked by healthy net worth, debt protection metrics and moderate gearing levels. The net worth stood at about Rs.43.20 crore as on 31 March, 2018 on provisional basis, an increase by about Rs.3.56 crore over FY2017; it was mainly due to accretion of internal accruals. Gearing is moderate at 1.10 times in FY2018 (Provisional), improved from 1.18 times in FY2016 due to increase in net worth and absence of major debt funded capex plans. Net cash accruals stood at Rs 6.84 crore in FY2018 (Provisional) as against maturing debt obligations of Rs.2.14 crore. SAPL has flexibility of about 45 percent of unutilised bank lines in case of new or higher orders for execution. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are moderate at 4.06 times and 0.14 times respectively for FY2017. Gearing is expected to remain moderate at below 1.0 time, and ICR and NCA/TD are expected to improve marginally over the medium term in the absence of major debt-funded capex and stable scale of operations.

- **Moderate working capital management**

SAPL has moderate working capital operations as evident from Gross Current Assets (GCA) of 151 days as on March 31, 2018 (Provisional) as against 146 days as on March 31, 2017. The company's inventory days are around 50 days, and receivable days are around 90 days over the past three years through FY2018 (Provisional). Acuité believes that the working capital operations of the company will remain moderate as evident from stable debtor and inventory levels.

Weaknesses

- **Susceptible to changes in input prices and foreign exchangerate**

The profitability is susceptible to changes in the prices of the raw material fabric and other consumables which is dependent on cotton. The prices of cotton are highly dependent on agro-climatic conditions. Besides, cotton prices are fixed by the government through Minimum Support Price (MSP). The profitability is also susceptible to the changes in the forex rate. The volatility in INR-USD was about 3.8 percent in FY2017 (with highs of Rs.65.76/USD and lows of Rs.63.34/USD) and volatility in INR-EURO was about 9.6 percent in FY2017 (with highs of Rs.76.41/EURO and lows of Rs.69.71/EURO). However, over the past four months through April 26, 2018 rupee depreciated a lot at about 5.5 percent and which exposed the players to volatile profitability margins. Acuité believes that SAPL should be able to maintain its operating profitability around existing levels notwithstanding the volatility in prices of its key inputs, on the back of its established position of forward contracts to the extent of Rs.2.88 crore.

Outlook: Stable

Acuité believes that the outlook on SAPL will remain 'Stable' over the medium term on account of its experienced management and long standing presence in textile business. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while maintaining the profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in the liquidity owing to increase in its receivable position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	151.55	148.49	146.82
EBITDA	Rs. Cr.	12.07	11.73	12.15
PAT	Rs. Cr.	4.56	4.66	4.58
EBITDA Margin	(%)	7.97	7.90	8.28
PAT Margin	(%)	3.01	3.14	3.12
ROCE	(%)	12.44	14.43	34.10
Total Debt/Tangible Net Worth	Times	1.16	1.18	1.04
PBDIT/Interest	Times	4.06	3.87	3.17
Total Debt/PBDIT	Times	3.79	3.45	2.57
Gross Current Assets (Days)	Days	146	148	107

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.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. Cr.)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	15.30	ACUITE A3
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A3
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A3
Term loans	Not Applicable	Not Applicable	Not Applicable	5.42	ACUITE BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.93	ACUITE A3
Term loans	Not Applicable	Not Applicable	Not Applicable	6.75	ACUITE BBB- / Stable

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About Acuité Ratings & Research:

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