



Press Release

Shakti Trendz Private Limited

April 09, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE B+/Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and short term rating of '**ACUITE A4** (**read as ACUITE A four**) to the Rs.10.00 crore bank facilities of SHAKTI TRENDZ PRIVATE LIMITED. The outlook is '**Stable**'.

Shakti Trendz Private Limited (STPL) is a Bangalore based company incorporated in the year 2011; it is engaged in the business of manufacturing of Readymade Garments. The company is promoted by Mr. Jai Kishan Bajaj and Usha Bajaj. It manufactures shirts, trousers, denim jeans and all types of men's wear.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Shakti Trendz Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced Management**

The company is promoted by Mr. Jai Kishan Bajaj and family who has over two decades of experience in the textile industry. Prior to establishing STPL, Jai Kishan has work experience in Mudra Life style, heading Bangalore region. Experience of the promoters in the industry helped the company in bagging reputed customers such as Aditya Birla Fashion and Retail Limited, Arvind Lifestyle Brands Limited, Myntra Jabong India Pvt Ltd., Reliance Retail Limited among others. Acuité believes that the company will benefit from the experience of the management in the industry over the medium term.

- **Moderate working capital Cycle**

Working capital cycle of the company is moderate which is evident from moderate gross current assets (GCA) at 114 days in FY2018 as against 75 days in FY2017. This is on account of moderate debtor realization and inventory management. Receivables stood at 64 days in FY2018 as against 51 days in FY2017. Inventory has increased to 50 days in FY2018 as against 19 days in FY2017. However, bank limit are is fully utilized for the last six months through January 2019. Acuité believes that the company's working capital operations are expected to be at similar levels over the medium term

Weaknesses

- **Modest scale of operations and profitability**

Despite the company operating since 2011, the revenues of the company remained modest at Rs.36.26 crore FY 2018 as against Rs.37.96 crore in FY 2017 and Rs.42.32 crore in FY2016. Revenues have declined due to walk out one of the client; however, it could recoup by diversifying and addition of new clientele. From April 2018-January 2019, the company reported revenues of Rs.29 crore and is expecting revenues of around Rs.35 crore for FY2019. Further, operating margins of the company are moderate and stood at 4.24 percent in FY2018 as against 3.80 percent in FY2017.

Acuité believes that, ability of the company to increase the scale of operations would be the key rating sensitivity factor over the medium term.

- **Below average financial risk profile**

Financial risk profile of the company is below average marked by high total outside liabilities to total net worth (TOL/TNW), moderately high gearing (debt to equity ratio) and debt protection metrics. TOL/TNW is high at 4.84 times as on 31 March, 2018 as against 3.54 times as on 31 March, 2017. The gearing (debt-to-equity) is moderately high at 2.27 times as on 31 March, 2018 as against 2.29 times as on 31 March, 2017. Net worth is modest at Rs.2.43 crore as on 31 March, 2018 as against Rs. 2.24 crore as on 31 March, 2017. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) are moderate at 1.56 times and 0.08 times in FY2018. The company reported net cash accruals (NCA) of Rs.0.47 crore in FY2018. NCAs is expected to be in the range of Rs.0.45-0.60 crore against the repayment obligations of about Rs.0.30-0.50 crore. Acuité believes that with moderate accruals and routine capex of about Rs.0.50 crore, the financial risk profile is expected to be at similar levels over the medium term.

- **Intense competition from small and established players:**

Shakti Trendz operates in a highly fragmented industry with limited entry barriers wherein the presence of a large number of domestic and international players in the sector limits its bargaining power with customers.

Liquidity

Liquidity of STPL is stretched marked by modest cash accruals against its repayment obligations. STPL has reported cash accruals of Rs.0.47 crore in FY2018. Its expected cash accruals are in the range of Rs.0.40-0.60 crore over the medium term against which its repayment obligations are about Rs.0.30-50 crore. It has fixed deposit of about Rs.0.07 crore and cash and bank balance of Rs.0.04 crore as on March 31, 2018. Working capital intensive operations lead to high utilisation of its bank lines for six months through January 2019. Acuité believes that with modest accruals to obligations, incremental working capital requirements, the liquidity remains stretched over the medium term.

Outlook: Stable

Acuité believes that the outlook of the STPL will remain 'Stable' over the medium term on account of experienced management and reputed clientele. The outlook may be revised to 'Positive' if the company is able to increase the scale of operations, sustain the profitability and improves its capital structure. Conversely, the outlook may be revised to 'Negative' in case of further stretch in its working capital management and larger than expected capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	36.26	37.96	42.32
EBITDA	Rs. Cr.	1.54	1.44	1.37
PAT	Rs. Cr.	0.17	0.15	0.30
EBITDA Margin	(%)	4.24	3.80	3.25
PAT Margin	(%)	0.48	0.40	0.70
ROCE	(%)	16.29	19.64	43.41
Total Debt/Tangible Net Worth	Times	2.27	2.29	2.60
PBDIT/Interest	Times	1.56	1.41	1.91
Total Debt/PBDIT	Times	3.59	3.55	2.80
Gross Current Assets (Days)	Days	114	75	91

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.75	ACUITE B+/ Stable
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.25	ACUITE B+/ Stable
Proposed Bank Facility (Bills Discounting)	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4

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About Acuité Ratings & Research:

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