

Press Release

Uni Sourcce Treend India

D-U-N-S® Number: 91-583-6356



August 23, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 28.30 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 BBB minus**) and short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 28.30 crore bank facilities of UNI SOURCCE TREEND INDIA. The outlook is '**Stable**'.

Uni Sourcce Treend India (USTI) is a Tamil Nadu-based firm established as a proprietorship firm in 2004 and later in 2006 converted into partnership firm. The firm is engaged in manufacturing of readymade garments for men, women and children. The firm has installed capacity to manufacture 70 lakh pieces per annum. The firm sells its products to some of the reputed customers namely Max Holding and Investment Limited, Dubai (MHIL), Shinsegae International, South Korea, Next Plc, among others.

Analytical Approach

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

Key Rating Drivers

Strengths

• Long track record operations and experienced management

The firm is in the said line of business since 2004. The firm is promoted by Mr. C V Sudhakar, Mr. Jagathan and other partners, who possess more than two decades of experience in the textile industry. The top management is supported by well experienced technical and marketing team. The same has been reflected in revenue growth from Rs.132.56 crore in FY2017 to Rs.169.62 crore in FY2019 (Provisional) backed by repeat orders from the customers, namely MHIL and Shinsegae International. For 3 months of FY2020 (April-June), the firm has reported revenues of Rs.44 crores with an outstanding order book of Rs.49 crores for deliverables in next 3-6 months. Acuité believes that the firm will continue to benefit from the experience of the management and established relationship with the customers over the medium term.

• Comfortable financial risk profile

The financial risk profile of the firm is comfortable marked by comfortable gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and debt protection metrics. The gearing (debt-to-equity) and TOL/TNW are comfortable at 1.14 times and 2.50 times as on 31 March, 2019 (Provisional) as against 1.58 times and 3.29 times as on 31 March, 2018. Net worth stood at Rs.20.09 crore as on 31 March, 2019 (Provisional) as against Rs.17.87 crore as on 31 March, 2018. Of the total debt of Rs.22.84 crore, long term debt constitutes Rs.4.31 crore, unsecured loans of Rs.1.60 crore and short term debt of Rs.16.93 crore. The debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 3.50 times and 0.24 times in FY2019 (Provisional) as against 3.42 times and 0.15 times in FY2018. In FY2019 (Provisional), the firm did capital expenditure of Rs.2.86 crore to increase the production capacity. The firm reported net cash accruals (NCA) of Rs.5.52 crore in FY2019 (Provisional) as against Rs.4.36 crore in FY2018. Cash accruals are expected in the range of Rs.6-7 crore, against repayment obligations of Rs.0.30-1.40 crore. Acuité believes that with moderate accruals and in absence of major debt funded capital expenditure, the financial risk profile is expected to improve marginally over the medium term.

- **Moderate working capital cycle**

The working capital cycle of the firm is moderate marked by moderate gross current assets (GCA) days at 102 days in FY2019 (Provisional) as against 139 days in FY2018. The firm maintains inventory of about two months, which is reflected in the inventory cycle of 60 days in FY2019 and 65 days in FY2018. Debtor's cycle is moderate and has improved to 29 days in FY2019 as against 63 days in FY2018. With year-over-year growth in revenues at a compound annual growth rate of about 13 per cent for last three years through FY2019 and modest net worth, the firm stretched its creditors partly to fund its working capital requirements leading to weak current ratio at 1.03 times in FY2019 (Provisional) as against 0.97 times in FY2018. Its payable days are about 139 days as of March 31, 2019 as against 208 days in FY2018. The firm capitalised the benefit of its reputed clientele, while stretching its creditors. Its working capital limits are utilised at around 84 per cent for the last 12 months through June 2019. However, with the expected cash accruals of Rs.6.7 crore and no major debt funded capital expenditure, liquidity is expected to improve and current ratio is expected to be around 1.20 times over the medium term.

Weaknesses

- **Currency fluctuation and customer concentration risk**

The firm reported about 96 per cent of revenues from the export market in FY2019 and FY2018. The firm hedges 50 per cent of the exports through forward contracts; hence, exposing to the currency fluctuation risk. Further, the firm is exposed to customer concentration risk, as of the total revenues reported in FY2018 and FY2019, revenues contribution from MHIL stood at 49 per cent and 60 per cent, respectively. The ability of the firm in diversifying the customer profile, while maintaining the business risk profile as well as the profitability margins, would be the key rating sensitivity factor over the medium term.

- **Highly fragmented and competitive industry**

The ready-made garment industry is highly fragmented with several organised and unorganised players in both domestic and overseas markets, impacting firm's margins.

Liquidity Position:

The liquidity position is adequate marked by adequate cash accruals and moderate working capital cycle. It has reported cash accruals of Rs.5.11 crore in FY2018 and Rs.6.78 crore in FY2019 (Provisional). Its expected cash accruals are in the range of Rs.6.0-7.0 crore against the repayment obligations of Rs.0.30-1.5 crore. The working capital cycle is moderate with GCA days of 113 days in FY2019 (Provisional) as against 139 days in FY2018; resulted in moderate utilisation of its limits at 84 per cent over last 12 months through June 2019. Its current ratio is weak at 1.03 times in FY2019 (Provisional) as against 0.97 times in FY2018. Acuité believes that with moderate accruals and comfortable working capital operations, the liquidity profile continues to be adequate over the medium term.

Outlook: Stable

Acuité believes that USTI will maintain a 'Stable' outlook in the medium term backed by its promoter's extensive experience and established relations with customers. The outlook may be revised to 'Positive' if the firm registers more than expected growth in its revenues, while maintaining its profitability and improving its capital structure and diversifying its clientele. Conversely, the outlook may be revised to 'Negative' if there is any stretch in its working capital cycle further leading to weakening of its current ratio, or major debt funded capital expenditure or any significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	169.62	138.31	132.56
EBITDA	Rs. Cr.	9.25	6.97	8.40
PAT	Rs. Cr.	2.93	1.75	2.27
EBITDA Margin	(%)	5.45	5.04	6.33
PAT Margin	(%)	1.73	1.26	1.71
ROCE	(%)	15.47	10.47	16.44
Total Debt/Tangible Net Worth	Times	1.14	1.58	1.51
PBDIT/Interest	Times	3.50	3.42	3.37
Total Debt/PBDIT	Times	2.41	3.92	2.93
Gross Current Assets (Days)	Days	102	139	103

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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
PC/PCFC*	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A3
FBN/FBP/FBD/PSFC/FBE*	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3
Term loans	Not Applicable	Not Applicable	Not Applicable	2.59	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.08	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.63	ACUITE BBB- / Stable

*Interchangeability to the extent of Rs.4 crore from pre shipment to post shipment and vice versa.

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About Acuité Ratings & Research:

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