

Press Release

Sri Niketan Silks

December 08, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.6.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.6.00 Crore bank facilities of Sri Niketan Silks (SNS). The outlook is '**Stable**'.

About the Firm

Tamil Nadu-based, SNS was established as a proprietorship firm in 2012. The firm is engaged in wholesale trading of Kanchipuram silk sarees. The firm is promoted by Mr. M. Pravin Jain.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of SNS to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The proprietor, Mr. M. Pravin Jain has over a decade of experience in the said line of business. The extensive experience has enabled the firm to forge healthy relationships with customers and suppliers.

Acuité believes that proprietors' experience is expected to support its business risk profile over the medium term; however, operations are expected to remain impacted in FY2021 due to the outbreak of COVID – 19.

Weaknesses

- **Below average financial risk profile**

SNS's financial risk profile is below average marked by modest net worth, poor gearing (debt to equity ratio), moderate total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. Tangible net worth of the company stood at Rs.1.04 Cr as on 31st March, 2020 (Provisional) against Rs.1.03 Cr as on 31st March, 2019. The gearing stood at 4.99 times as on 31st March, 2020 (Provisional) against 5.49 times as on 31st March, 2019. TOL/TNW stood poor at 13.11 times as on 31st March, 2020 (Provisional) against 17.39 times as on 31st March, 2019. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) stood moderate at 1.59 times and 0.07 times, respectively in FY2020 (Provisional).

Acuité believes that the financial risk profile of the firm is expected to remain at a similar level on account of modest net worth and no debt-funded capital expenditure for the medium term.

- **Highly competitive industry**

The firm operates in a highly competitive textile industry with intense competition from several unorganized players limiting its bargaining power.

Rating Sensitivities

- Growth in revenue with the sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity.

Material Covenants

None

Liquidity: Stretched

Liquidity of SNS is stretched marked by high bank limit utilization of ~80-85 percent for the last seven months ended October, 2020. The working capital operations of the firm is moderate marked by Gross Current Asset (GCA) days of 97 days in FY2020 (Provisional). The firm generated cash accruals of Rs.0.33 Cr-Rs.0.36 Cr during the last three years through 2018-20 against nil repayment obligations. It is expected to generate cash accruals in the range of Rs.0.07 Cr-Rs.0.42 Cr over the medium term, against moderate repayment obligations. The firm reported low unencumbered cash and bank balances of Rs.0.04 Cr as on 31st March, 2020 (Provisional). The current ratio stands at 0.97 times as on 31st March, 2020 (Provisional). Liquid investments stood at Rs.1.83 Cr as on 31st March, 2020 (Provisional).

Acuite believes that the liquidity profile continues to be stretched marked by high bank limit utilization.

Outlook: Stable

Acuite believes that SNS will maintain 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the firm demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than expected growth in revenues and profitability or deterioration in the financial risk profile, working capital cycle and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	44.66	41.84
PAT	Rs. Cr.	0.36	0.30
PAT Margin	(%)	0.80	0.72
Total Debt/Tangible Net Worth	Times	4.99	5.49
PBDIT/Interest	Times	1.59	1.71

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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	6.00	ACUITE B+/ Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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