

## Press Release

Saran Garments

April 10, 2023

## Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	21.00	-	ACUITE A4+   Assigned
Total Outstanding Quantum (Rs. Cr)	21.00	-	-

## Rating Rationale

Acuite has assigned its short term rating of "**ACUITE A4+**"(read as **ACUITE A four Plus**) on the Rs. 21.00 Crore bank facilities of Saran Garments (SG).

### Rationale for rating

The rating takes into account the established track record of operations of the company along with a longstanding relationship with reputed clientele namely Next Plc, Marks and Spencer, SCM Ltd, etc. Further, the rating factors in the moderate financial risk profile of SG. The rating is however constrained by the firm's working capital intensive nature of operations and modest scale of operations, customer concentration risk and presence in the highly competitive industry. Ability of the firm to improve its scale of operations while maintaining profitability and to expand its customer base in order to mitigate the revenue concentration risk will remain a key rating sensitivity factor.

### About the Company

Tirupur based Saran Garments was established in the year 1988 as a Proprietorship Concern. Mr. K K Chandrasekar is the proprietor of the Concern and Mr. K K Balasubramanian is the general Manager of the Concern. The Concern is engaged in the business of readymade garment. The manufacturing unit of the firm is located in Tirupur, Tamilnadu.

### Analytical Approach

Acuite has considered the standalone business and financial risk profile of Saran Garments to arrive at this rating.

### Key Rating Drivers

#### Strengths

#### Experienced management and established track record of operations

Saran Garments is engaged in manufacturing and exporting of garments. It has an established operational track record of over three decades. Mr. K K Chandrasekar is the proprietor of the Concern and Mr. K K Balasubramanian is the general Manager with their combined experience of more than 3 decades. They are being supported by its team of experienced professionals in managing day to day operations of Saran Garments. The extensive experience of the promoters has enabled entity to establish a healthy relationship with its customers and suppliers. The firm is having a longstanding relationship with reputed clienteles namely Next Plc, Basic Italia S.P.A., Marks and Spencer SCM Ltd, etc. Further, the

company is having an outstanding order book position of Rs 41 Cr as on date from these clientele only. Acuité believes that firm may continue to benefit from its experienced management and established track record of operations along with reputed clientele.

### **Moderate Financial risk profile**

The financial risk profile of the firm is moderate marked by moderate net worth, moderate gearing and average debt protection metrics. The net worth of the entity stood at Rs.25.90 crore in FY22 against Rs.23.07 Crore in FY21. The increase in net worth is majorly due to accretion of profit to the reserve. The total debt of the firm stood at Rs.32.96 Crore in FY22 consists Unsecured loans of Rs.6.56 Crore and short term borrowings of Rs.17.05 Crore. There is a withdrawal of unsecured loans has shown as firm has paid off to Sabari constructions Technologies (P) Ltd and closed the loan of Rs.13.46 Crore. Further, the debt-equity ratio of the firm stood at 1.27 times in FY22 against 1.69 times in FY21. The interest coverage ratio of the firm stood at 2.30 times in FY22 against 2.04 times in FY21. The TOL/TNW ratio stood at 1.52 times in FY22 against 1.99 times in FY21. The gearing of the entity is however expected to remain low over the medium term on account of absence of any debt funded capex plans in the future. Acuité believes that the financial risk profile of Saran Garments may continue to remain moderate over the medium term on account of low debt levels vis-à-vis modest tangible net worth and average debt protection metrics.

### **Weaknesses**

#### **Working capital intensive operations**

The operations of Saran Garments are working capital intensive marked by its Gross Current Assets (GCA) of 191 days for FY2022 as against 119 days for FY2021. This is primarily on account of high inventory days and receivable cycle. The inventory days are high stood at 102 days in FY2022 as against 70 days in FY2021 as the company generally maintains an average inventory holding of 2 to 3 months. On the other hand, the receivable days stood at 34 days in FY2022 as against 27 days in FY2021. The creditor days stood at same level of 15 days in FY2022 as against 14 days in FY2021. Acuité believes that Saran Garments ability to improve its working capital cycle over the medium term will remain a key rating sensitivity factor.

#### **Modest scale of operations and customer concentration risk**

Saran Garments has a modest scale of operations reflected in the revenue of Rs. 71.90 Cr. in FY2022 against Rs.74.46 Cr. in FY2021. KTPL is also susceptible to customer concentration risk as ~65 percent of the company's products are exported to MARKS AND SPENCER SCM LTD in United Kingdom. This makes the company highly susceptible to business risk profile of its top clients. Acuité believes that the ability of the entity to expand its customer base in order to mitigate the revenue concentration risk will be a key rating sensitivity factor.

#### **Highly competitive industry and susceptibility of margins to volatility in raw material prices.**

The garment industry is a highly fragmented industry and presence of large number of organised and unorganised players has created high competition in the industry. Entity faces competition from large players as well as numerous players in the unorganised segment. Further, operating and profitability margins are expected to remain susceptible to fluctuations in the raw material prices..

### **Rating Sensitivities**

- Improvement in scale of operations while maintaining profitability.
- Further deterioration of working capital cycle.
- Ability to expand its customer base in order to mitigate the customer concentration risk.

### **Material covenants**

None.

### **Liquidity Position Adequate**

The liquidity profile of the company is adequate. The company has generated net cash accruals of Rs.2.11 Crore in FY22 against the debt repayment obligation of Rs.4.18 Crore in the same period. However, the company has an adequate buffer of liquidity though investments of Rs.21.74 Crore. Going forward, the company is expected to generate net cash accruals of Rs.3.00 Crore against debt repayment obligation of Rs.5.90 Crore. However, the shortfall will be repaid by the cushion of investments available with entity. Further, the average bank limit utilisation of the company stood at 94.20% in last six months ending September 2022. The current ratio of the company stood at 1.57 times in FY22 and the cash and bank balance available is Rs.0.97 Crore in FY22.

### Outlook

Not Applicable

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	71.90	74.46
PAT	Rs. Cr.	1.49	1.45
PAT Margin	(%)	2.07	1.95
Total Debt/Tangible Net Worth	Times	1.27	1.69
PBDIT/Interest	Times	2.30	2.04

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

Not applicable

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

### Rating History:

Not Applicable

### Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	21.00	ACUITE A4+   Assigned

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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