

Press Release
SARAN GARMENTS
July 04, 2024
Rating Reaffirmed



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

Rating Rationale

Acuite has reaffirmed 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, Basic Italia, 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.

Unsupported Rating

Not Applicable

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, Marks and Spencer, etc. Further, the company is having an outstanding order book position of Rs 42.09 Cr. as on date from these clienteles 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 company is moderate marked by moderate net worth of Rs. 30.16 crore in FY24 (prov.) against Rs.28.06 Crore in FY23. The total debt of the company stood at Rs. 26.56 Crore in FY24 (prov.) which consist of long term debt of Rs. 1.71 Crore, Unsecured loans of Rs. 6.63 Crore, short term borrowings of Rs. 17.67 Crore and CPLTD of Rs. 0.55 Cr. The gearing ratio (Debt to Equity) albeit moderated remained below unity and stood at 0.88 times in FY 2024 (prov.) as against 0.75 times in FY 2023. Debt Protection Matrix (i.e. DSCR & ICR) stood at 1.32 & 1.78 times in FY 24 (prov.) against 0.57 & 1.99 times in FY 23 respectively.

Weaknesses

Declining scale of operations and customer concentration risk

Saran Garments has a declining scale of operations reflected in the revenue of Rs. 75.57 Cr. in FY2024 (prov.) against Rs.89.36 Cr. in FY2023. It is also susceptible to customer concentration risk as ~76 percent of the company's products are exported to MARKS AND SPENCER 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 improving liquidity profile of the firm.
- Ability to expand its customer base in order to mitigate the customer concentration risk.

Liquidity Position

Adequate

The Company has adequate liquidity position marked by net cash accruals of Rs. 1.91 Cr. in FY 24 (prov.) against the CPLTD of Rs. 0.84 Cr. for the same period giving some legroom for growth fund. The company has cash & bank position of Rs. 0.15 Cr. and current ratio stood at 1.61 times for FY 24 (prov.). Company has made Rs. 2.25 Cr. investment in fixed deposits in Canara Bank which is entirely unencumbered. Apart from this company has also invested Rs. 15.79 Cr. in mutual funds, life insurance, bonds, shares etc. which further supports company's liquidity position. The average fund based bank limit utilization remained at 65.17% for the 6 months' period ending May 2024 reflecting liquidity buffer in the form of undrawn limits.

Outlook

Not Applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	75.57	89.36
PAT	Rs. Cr.	1.32	1.72
PAT Margin	(%)	1.74	1.93
Total Debt/Tangible Net Worth	Times	0.88	0.75
PBDIT/Interest	Times	1.78	1.99

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>
- Manufacturing Entities: <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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 Apr 2023	PC/PCFC	Short Term	21.00	ACUITE A4+ (Assigned)

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 avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	21.00	ACUITE A4+ Reaffirmed

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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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