

Suvastra India: Downgraded

Name of the Instruments	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	2.00	SMERA B+/Stable (Downgraded from SMERA BB-/Stable)
Letter of Credit	1.75	SMERA A4 (Downgraded from SMERA A4+)
Packing Credit	2.25	SMERA A4 (Downgraded from SMERA A4+)

SMERA has downgraded the ratings on the Rs.6.00 crore bank facilities of Suvastra India (SI) to **'SMERA B+' (read as SMERA B plus)** and **'SMERA A4' (read as SMERA A four)** from **'SMERA BB-' (read as SMERA double B minus)** and **'SMERA A4+' (read as SMERA A four plus)**. The outlook is **'Stable'**.

The ratings are constrained by the limited operational track record, declining operating and PAT margins and intense market competition. The ratings are also constrained by risks related to economic conditions of the exporting countries, moderately high gearing and foreign exchange fluctuation risk. However, the ratings derive comfort from high revenue growth rate, moderate coverage indicators and experienced management.

Suvastra India is headed by Mr. Karthigeyan (Partner) who possesses over two decades of experience in the garment industry. The firm has long standing relations with a diversified set of reputed clients. The financial risk profile is marked by low net worth of Rs.1.66 crore with ICR at 2.57 times and DSCR at 3.30 times as on March 31, 2015. Further, the gearing is high at 4.81 times as on March 31, 2015.

The firm's profits are exposed to forex fluctuation risk. Exports bring in around 85 per cent revenue (Japan accounts for 65 per cent and European countries, 25 per cent) with the balance 15 per cent coming in from the domestic market. The firm's margins have shown an uneven movement. In FY2013 the EBITDA stood at 8.95 per cent and increased to 10.63 per cent in FY2014 falling to 7.56 per cent in FY2015. Also, the PAT margin was 3.78 per cent in FY2013 which increased marginally to 6.24 per cent in FY2014 and decreased to 3.17 per cent in FY2015.

Rating Sensitivity Factors

- Scaling up of operations while improving profit margins
- Efficient working capital management

Outlook-Stable

SMERA believes that SI will continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' if the firm's scale of operations increases substantially while maintaining operating profitability and registering improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' if the firm fails to achieve scalability amidst intensifying competition in the area of operation or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

Criteria applied to arrive at the rating:

- Manufacturing Entities

About the Firm

Suvastra India, established in 2010 by Mr. Karthigeyan is engaged in the manufacture of readymade garments. The firm has an installed capacity of 45,000 pieces and largely exports its products to Netherlands, USA, UK and Japan. The manufacturing facilities are located at Bangalore.

In FY2014-15, Suvastra India reported net profit of Rs.0.74 crore on operating income of Rs.23.31 crore.

Rating History

Date	Name of the Instrument	Amount (Rs. Crore)	Rating		Rating Outlook
			Long Term	Short Term	
15 April, 2015	Cash Credit	2.00	SMERA BB-(Assigned)	-	Stable
	Letter of Credit	1.75	-	SMERA A4+(Assigned)	-
	Packing Credit	2.25	-	SMERA A4+(Assigned)	-

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ABOUT SMERA

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