

Press Release

Suvastra India (SI)

15 January, 2018



Rating Reaffirmed

Total Bank Facilities Rated	Rs. 6.00 crore
Long Term Rating	SMERA B+/Stable (Reaffirmed)
Short Term Rating	SMERA A4 (Reaffirmed)

* Refer Annexure for details

SMERA has reaffirmed long term rating of '**SMERA B+**' (read as **SMERA B plus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the above bank facilities of Suvastra India (SI). The outlook is '**Stable**'.

Suvastra India (SI), Bangalore based, established in 2010, is a partnership firm and is engaged in the manufacturing of readymade garments. The firm is closely held by Mr. Kartigeyan and Supreme Healthcare Bangalore Private Limited. SI has its manufacturing facility at Bangalore, Karnataka with an installed capacity of manufacturing 45,000 pieces of readymade garments. Firm has total 120 stitching machines. Firm is into exports of readymade garments to Japan, European countries and USA.

List of key rating drivers and their detailed description:

Strengths

Experienced Management: SI benefits from its experienced management. The promoter Mr. Karthikeyan of the firm has around two decades of experience in the textile industry.

SMERA believes that SI will continue to benefit from its experienced management and established long-standing relationships with its clients.

Healthy operating margins: The operating margins of SI have remained healthy at 11.42 percent in FY16 from 7.56 percent in FY2015 mainly on account of automatization. However, the margins have declined to 9.84 percent in FY17 (Prov) on account of increase in raw material and selling expenses. PAT margin stood at 2.45 % in FY2017 (P) as against 2.43% in FY2016.

Weaknesses

Stagnant revenue trend: SI revenue was stagnant during the period under study. The revenue stood at Rs.22.48 crore in FY2016 as against Rs. 23.31 crore in FY2015. Further as per provisional financials for FY2017, SI registered revenue of Rs. 23.95 cr. Firm has registered revenue of ~ Rs. 30.00 crore for the period of April 17 to December 17.

Average financial risk profile: SI has an average financial risk profile marked by tangible networth of Rs.3.16 crore as on 31 March 2017 (provisional) as against Rs.3.14 crore as on March 31, 2016. The gearing stood on a higher side at 3.65 times as on 31 March 2017 (provisional) as against 2.70 times as on 31 March, 2016. The total debt of Rs.11.54 crore as on 31 March 2017 (provisional) comprises majorly of working capital funding of Rs. 9.45 crore and unsecured loan from Bank and NBFC of Rs.

2.09 crore.

SI has a moderate interest coverage ratio of 1.93 times in FY2016-17 (provisional) as against 1.76 times in FY2015-16. Going forward gearing is expected to remain comfortable in the medium term on account of absence of any large debt funded capex.

Intensive working capital operations : Working capital operations are intensive in nature marked by high gross current days of 254 days in FY2017 (Prov) as against 188 days in FY2016 mainly due to increase in debtors days to 109 days from 78 days in previous year. Moreover the working capital limit is fully utilised as confirmed by banker.

Intense Competition from small and established players in the industry and susceptibility to Foreign exchange fluctuation risk: SI operates in a highly fragmented industry with limited entry barriers wherein the presence of large number of players in the unorganized sector limits the bargaining power with customers. Moreover firm is exposed to foreign exchange fluctuation risk as its 85% of its revenue come from exports (Japan account for 65% and European countries for 25%) and rest 15% of revenue comes from domestic market.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of the SI.

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 company's scale of operations increases substantially, while maintaining its operating profitability and improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' if firm fails to achieve the scalability amidst intensifying competition in the area of operation or if financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Provisional)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	23.95	23.20	23.31
EBITDA	Rs. Cr.	2.36	2.65	1.76
PAT	Rs. Cr.	0.59	0.56	0.74
EBITDA Margin	(%)	9.84	11.42	7.56
PAT Margin	(%)	2.45	2.43	3.17
ROCE	(%)	15.68	21.82	18.63
Total Debt/Tangible Net Worth	Times	3.65	2.70	4.81
PBDIT/Interest	Times	1.93	1.76	2.57
Total Debt/PBDIT	Times	4.90	3.20	2.06
Gross Current Assets (Days)	Days	253.97	188.21	163.68

Applicable Criteria

- Manufacturing Entity: <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-Jun-2017	Cash Credit	Long Term	2.00	SMERA B+ (Indicative)
	Letter of Credit	Short Term	1.75	SMERA A4 (Indicative)
	Packing Credit	Short Term	2.25	SMERA A4 (Indicative)
27-Jun-2016	Cash Credit	Long Term	2.00	SMERA B+/ Stable (Downgraded)
	Letter of Credit	Short Term	1.75	SMERA A4 (Downgraded)
	Packing Credit	Short Term	2.25	SMERA A4 (Downgraded)
15-Apr-2015	Cash Credit	Long Term	2.00	SMERA BB -/ Stable (Assigned)
	Letter of Credit	Short Term	1.75	SMERA A4+ (Assigned)
	Packing Credit	Short Term	2.25	SMERA A4+ (Assigned)

#Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA B+/Stable (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A4 (Reaffirmed)

Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4 (Reaffirmed)
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ABOUT SMERA

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