

## Press Release

### Sava International Private Limited

January 06, 2020

### Rating Reaffirmed



|                                     |                           |
|-------------------------------------|---------------------------|
| <b>Total Bank Facilities Rated*</b> | Rs. 16.49 Cr.             |
| <b>Long Term Rating</b>             | ACUITE B-/Outlook: Stable |
| <b>Short Term Rating</b>            | ACUITE A4                 |

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE B-**' (read as **ACUITE B minus**) and the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the above mentioned bank facilities of SAVA INTERNATIONAL PRIVATE LIMITED (SIPL).

Delhi-based SIPL was established in 1980 as a partnership firm by the name of Sava Enterprises and later converted to Private Limited in 2008. The company is currently headed by Mr. Anil Khanna, Mr. Anuj Khanna, Mrs. Suruchi Khanna and Mrs. Vinita Khanna. SIPL is engaged in the manufacturing of cushion covers, curtains, and table cloth etc. The company generates ~100 percent of its revenues via exports.

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SIPL to arrive at this rating.

### Key Rating Drivers

#### Strengths

- **Experienced management and long track record of operations**

Established in 1980, SIPL has a long track record of operations of nearly four decades in the business in the textile industry. The company also benefits from the extensive experience of its promoters i.e. Mr. Anil Khanna, Mr. Anuj Khanna, Mrs. Suruchi Khanna and Mrs. Vinita Khanna all of them having nearly 4 decades of experience in the aforementioned industry. Going forward, Acuite expects the company will sustain its existing business profile on the back of established track record of operations and experienced management.

#### Weaknesses

- **Intensive working capital operations**

The working capital operations of the company depicted a further deterioration in FY2019 marked by high Gross Current Assets (GCA) of 161 days in FY2019 as compared to 146 days in FY2018. The GCA days have increased due to substantial increase in inventory holding period which stood at 101 days in FY2019 as compared to 72 days in FY2018. The inventory days are high due to variations in the product mix. Further debtor collection period stood at 38 days in FY2019 as compared to 31 days as on FY2018. As a result, the reliance on working capital limits has increased, leading to higher utilization of its bank lines at an average of 99 per cent over the last six months through November 2019. While the peak utilization is high at around 100 per cent during the same period. Acuite believes that the company's ability to manage the working capital will be key rating sensitivity.

- **Fall in revenues and stretch in liquidity position:**

SIPL's operating income has seen a downfall in the last 3 years marked by the operating income of Rs.27.96 crore in FY2019 as against Rs. 33.64 crore in FY2018 and Rs.36.46 crores in FY2017 respectively. Further the company has reported low operating margins (EBITDA) of (2.28) percent in FY2019 and (13.58) percent in FY2018 and (5.92) percent in FY2017 respectively.

The fall in operating income and the profitability is attributed to the heavy import restrictions set by the customer countries and availability of cheaper products in China and Bangladesh and as the company generates nearly 100 percent of its revenues via exports this has impacted SIPL's business considerably.

#### • Below average financial risk profile

The company has above average financial risk profile marked by average net worth, high gearing and above average debt protection metrics. The tangible net worth stood at Rs 5.86 crore as on 31st March, 2019 as against Rs (0.20) crore as on 31st March, 2018. However, the gearing stood high at 1.93 times as on 31st March, 2019 as against (57.06) times as on 31st March, 2018. The Total Outside Liabilities/ Tangible net worth (TOL/TNW) stood at 2.85 times as on 31st March, 2019 as against (123.50) times as on 31st March, 2018. Total debt of Rs 11.28 crore as on 31st March, 2019 includes long term debt of Rs 3.24 crore and short term debt of Rs 8.03 crore. Interest Coverage Ratio (ICR) stood at 2.48 times for FY 19 as against (2.49) times in the previous year. Debt Service Coverage Ratio (DSCR) stood at 1.87 times for FY 19 as against (1.75) times in FY 18. Net Cash Accruals/ Total Debt (NCA/TD) stood low at 0.21 times in FY 19 as compared to (0.45) times in FY 18. However the financial risk profile of the company has improved due to infusion of Rs. 6.06 crores of unsecured loans as quasi equity by the promoters as on 31<sup>st</sup> March 2019.

#### Rating Sensitivity Factor

- Growth in revenue, while improvement in the profitability margins
- Expected growth in business
- Elongation of working capital operations leading deterioration in financial risk profile and liquidity

#### Material Covenants

None

#### Liquidity Position: Stretched

SIPL has stretched liquidity marked by average net cash accruals to its maturing debt obligations and high bank limit utilization. The company generated cash accruals of around Rs.2.36 crore in FY2019, while it's maturing debt obligations were Rs.0.48 crore over the same period. The company's working capital operations are intensive in nature marked by high gross current asset (GCA) days of 161 in FY 2019. Further the cash credit limit of the company remains utilized at 99 percent during the last 6 months period ended Nov 2019. The company maintains unencumbered cash and bank balances of Rs.0.16 crore as on March 31, 2019. The current ratio of the company stood at 0.95 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of average net cash accruals against maturing debt obligations.

#### Outlook: Stable

Acuite believes that the company will maintain a 'Stable' outlook on the back of the management's extensive experience in the textile industry and long track record of operations. The outlook may be revised to 'Positive' in case of sustained increase in revenues and improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and accruals.

#### About the Rated Entity - Key Financials

|                               | Unit    | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income              | Rs. Cr. | 27.96         | 33.64         |
| PAT                           | Rs. Cr. | 1.55          | (5.21)        |
| PAT Margin                    | (%)     | 5.53          | (18.60)       |
| Total Debt/Tangible Net Worth | Times   | 1.93          | (57.06)       |
| PBDIT/Interest                | Times   | 2.48          | (2.49)        |

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

Not Applicable

#### Any other information

Not Applicable

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-4.htm>

**Note on complexity levels of the rated instrument**
<https://www.acuite.in/criteria-complexity-levels.htm>
**Rating History (Up to last three years)**

| Date        | Name of Instrument / Facilities    | Term       | Amount (Rs. Cr.) | Ratings/Outlook  |
|-------------|------------------------------------|------------|------------------|--|
| 19-Dec-2018 | Post Shipment Credit               | Long Term  | 7.00             | ACUITE B- /Stable<br>(Downgraded from ACUITE B+ /Stable)   |
|             | PC/PCFC                            | Long Term  | 5.75             | ACUITE B- /Stable<br>(Downgraded from ACUITE B+ /Stable)   |
|             | Bank guarantee/Letter of Guarantee | Short Term | 0.25             | ACUITE A4<br>(Reaffirmed)                                  |
|             | Proposed Packing Credit            | Long Term  | 6.78             | ACUITE B-<br>(Withdrawn)                                   |
|             | Proposed Bills Discounting         | Long Term  | 2.50             | ACUITE B-<br>(Withdrawn)                                   |
|             | Proposed Long Term Loan            | Long Term  | 2.00             | ACUITE B-<br>(Withdrawn)                                   |
|             | Term loans                         | Long Term  | 2.39             | ACUITE B- / Stable<br>(Assigned)                           |
|             | Term loans                         | Long Term  | 0.87             | ACUITE B- / Stable<br>(Assigned)                           |
|             | Inventory Funding                  | Long Term  | 0.23             | ACUITE B- / Stable<br>(Assigned)                           |
| 20-Nov-2017 | Post Shipment Credit               | Long Term  | 7.00             | ACUITE B+ / Stable<br>(Downgraded from ACUITE BB- /Stable) |
|             | Packing Credit                     | Long Term  | 5.75             | ACUITE B+ / Stable<br>(Downgraded from ACUITE BB- /Stable) |
|             | Secured Overdraft                  | Long Term  | 2.00             | ACUITE B+ / Stable<br>(Withdrawn)                          |
|             | Term Loan                          | Long Term  | 2.78             | ACUITE B+ / Stable<br>(Withdrawn)                          |
|             | Bank Guarantee                     | Short Term | 0.25             | ACUITE A4<br>(Downgraded from ACUITE A4+)                  |
|             | Proposed Packing Credit            | Long Term  | 6.78             | ACUITE B+ / Stable<br>(Downgraded from ACUITE BB- /Stable) |
|             | Proposed Long Term Loan            | Long Term  | 2.00             | ACUITE B+ / Stable<br>(Downgraded from ACUITE BB- /Stable) |

|              |                               |           |      |   |
|--------------|-------------------------------|-----------|------|---|
|              |                               |           |      | BB- /Stable)  |
|              | Proposed Post Shipment Credit | Long Term | 2.50 | ACUITE B+ / Stable (Downgraded from ACUITE BB- /Stable) |
| 11-July-2016 | Post Shipment Credit          | Long Term | 7.00 | ACUITE BB- / Stable (Reaffirmed)                        |
|              | Packing Credit                | Long Term | 5.75 | ACUITE BB- / Stable (Reaffirmed)                        |
|              | Secured Overdraft             | Long Term | 2.00 | ACUITE BB-/ Stable (Reaffirmed)                         |
|              | Term Loan                     | Long Term | 2.78 | ACUITE BB-/ Stable (Reaffirmed)                         |
|              | Bank Guarantee                | Long Term | 0.25 | ACUITE A4+ (Reaffirmed)                                 |
|              | Proposed Post shipment Credit | Long Term | 2.50 | ACUITE BB-/ Stable (Reaffirmed)                         |
|              | Proposed Packing Credit       | Long Term | 2.00 | ACUITE BB-/ Stable (Reaffirmed)                         |
|              | Proposed Long term loan       | Long Term | 2.00 | ACUITE BB-/ Stable (Reaffirmed)                         |

**\*Annexure – Details of instruments rated**

| Name of the Facilities             | Date of Issuance | Coupon Rate    | Maturity Date  | Size of the Issue (Rs Cr.) | Ratings/Outlook               |
|------------------------------------|------------------|----------------|----------------|----------------------------|-------------------------------|
| Post Shipment Credit               | Not Applicable   | Not Applicable | Not Applicable | 2.00                       | ACUITE B-/Stable (Reaffirmed) |
| PC/PCFC                            | Not Applicable   | Not Applicable | Not Applicable | 5.75                       | ACUITE B-/Stable (Reaffirmed) |
| Term loan 1                        | Not Applicable   | Not Applicable | Not Applicable | 2.39                       | ACUITE B- (Withdrawn)         |
| Term loan 2                        | Not Applicable   | Not Applicable | Not Applicable | 0.87                       | ACUITE B- (Withdrawn)         |
| Inventory Funding                  | Not Applicable   | Not Applicable | Not Applicable | 0.23                       | ACUITE B-/Stable (Reaffirmed) |
| Term Loan                          | Not Applicable   | Not Applicable | Not Applicable | 2.99                       | ACUITE B-/Stable (Reaffirmed) |
| Proposed Packing Credit            | Not Applicable   | Not Applicable | Not Applicable | 6.78                       | ACUITE B- (Withdrawn)         |
| Proposed Bills Discounting         | Not Applicable   | Not Applicable | Not Applicable | 2.50                       | ACUITE B- (Withdrawn)         |
| Proposed Long Term Loan            | Not Applicable   | Not Applicable | Not Applicable | 5.27                       | ACUITE B- (Reaffirmed)        |
| Bank guarantee/Letter of Guarantee | Not Applicable   | Not Applicable | Not Applicable | 0.25                       | ACUITE A4 (Reaffirmed)        |

## Contacts

| Analytical  | Rating Desk   |
|---|---|
| <p>Aditya Gupta<br/>Head- Corporate and Infrastructure Sector<br/>Tel: 022-49294041<br/><a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a></p> <p>Nikhilesh Pandey<br/>Ratings Analyst - Rating Operations<br/>Tel: 011-49731304<br/><a href="mailto:nikhilesh.pandey@acuite.in">nikhilesh.pandey@acuite.in</a></p> | <p>Varsha Bist<br/>Manager - Rating Desk Tel:<br/>022-49294011<br/><a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a></p> |

### About Acuité Ratings & Research:

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