

April 17, 2015

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	5.00	SMERA B/Stable (Upgraded from SMERA B-/Stable)
Export Packing Credit	3.00	SMERA A4 (Reaffirmed)

SMERA has upgraded the rating on the Rs.5.00 crore long-term bank facility of Swan Silk Private Limited (SSPL) to '**SMERA B' (read as SMERA single B)**' from '**SMERA B-' (read as SMERA single B minus)**'. The short-term rating is reaffirmed at '**SMERA A4' (read as SMERA A four)**'. The outlook on the long-term rating is '**Stable**'. The upgrade reflects improvement in the company's profitability and financial risk profile. The ratings continue to draw comfort from the company's established operations and experienced management. However, the ratings remain constrained by company's modest-scale operations. The ratings note that the company's profit margins are susceptible to competitive pressures and forex fluctuation risk. The ratings consider the inherent risks and potential benefits in the company's new business venture (leasing of commercial space).

Update

SSPL has recently ventured into leasing of commercial space. The company has incurred capex of Rs.10.35 crore towards construction of a commercial building in Byatarayanapura, Bangalore. The project was funded through term loan of Rs.5.00 crore and promoters' funds of Rs.5.35 crore. The company has entered into a long-term lease agreement (of 15 years) with Aditya Birla Retail Limited. SSPL is entitled to receive lease rent of Rs.0.21 crore per month (starting from February 2015).

SSPL reported operating income of Rs.26.33 crore in FY2013-14 (Rs.27.57 crore in the previous year). The company's operating profit margin increased from 5.15 per cent in FY2012-13 to 5.90 per cent in FY2013-14. SSPL's profit after tax of Rs.0.09 crore (in FY2013-14) is supported by non-operating income of Rs.0.14 crore (dividend receipts, profit on sale of fixed assets and interest income).

SSPL's debt-equity ratio is comfortable at 0.86 times as on March 2014 (0.36 times as on March 31, 2013). The company's interest coverage ratio deteriorated from 3.24 times in FY2012-13 to 2.98 times in FY2013-14.

SSPL continues to benefit from its experienced management. The directors, have around three decades of experience in the textile industry.

Outlook: Stable

SMERA believes SSPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers substantial growth in revenues while maintaining comfortable operating profit margin. The outlook may be revised to 'Negative' in case the company fails to achieve the projected revenue growth, or in case of deterioration in the company's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the company

SSPL, incorporated in 1986, is a Bangalore-based company engaged in manufacturing and export of silk fabrics and furnishings. SSPL has six manufacturing units in Karnataka. The company has recently ventured into leasing of commercial space.

For FY2013-14, SSPL reported profit after tax (PAT) of Rs.0.09 crore on operating income of Rs.26.33 crore, as compared with PAT of Rs.0.38 crore on operating income of Rs.27.57 crore in FY2012-13. The company's net worth stood at Rs.20.04 crore as on March 31, 2014, as compared with Rs.23.35 crore a year earlier.

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