

Press Release

Swan Silk Private Limited (SSPL)

26 May, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.10 cr.
Long Term Rating	SMERA B/Stable (Reaffirmed)
Short term rating	SMERA A4 (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA B**' (**read as SMERA B**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs.10.00 cr. bank facilities of Swan Silk Private Limited (SSPL). The outlook is '**Stable**'.

SSPL was incorporated in 1986. The company manufactures and exports silk fabrics and silk made-ups to Europe and USA. The manufacturing facilities are located at Bangalore. Since February 2015, lease rentals have been yet another revenue source for the company.

List of key rating drivers and their detailed description:

Strengths

Experienced management and established operational track record: SSPL is engaged in the manufacturing of textiles since 1986. The Directors, viz. Mr. Govindsa K. S, Mr. Vittal K. S, Mr. Radhusa K. S and others have around three decades of experience in the textile industry.

Moderate financial risk profile: SSPL has a moderate financial risk profile. The gearing improved from 0.93 times as on March 31, 2015 to 0.84 times as on March 31, 2016. The coverage indicators are average with interest coverage ratio and debt service coverage ratio of 1.95 times and 1.08 times in FY2015-16 respectively as compared to 0.30 times and 0.20 times in FY2014-15 respectively.

Weakness

Small scale of operations with uneven revenues: SSPL has small scale operations of Rs.29.18 crore in FY2015-16 as against Rs. 30.23 crore in FY2014-15 in spite of being in business since three decades. Further, in FY2017 (Provisional) SSPL reported revenue of ~ Rs. 19.25 crore registering a decline of ~ 40 per cent over FY2016. The decline in revenue is due to scaling down of manufacturing operations and diversifying into lease rentals. For FY2017 (Provisional), the lease rental income increased to Rs. 4.25 crore as against Rs. Rs.3.29 crore in FY2016 and Rs.0.61 crore in FY2015.

Weak profitability: SSPL reported operating margin (EBITDA) of 10.42 per cent in FY2016 as against 0.97 per cent in FY2015. SSPL incurred net loss of Rs. 0.11 crore in FY2016 as against net loss of Rs.2.55 crore in FY2015 on account of the high depreciation and interest obligations of the company.

Working capital intensive operations: SSPL's operations remained working capital intensive as reflected in the gross current assets of 174 days in FY2016 as against 224 days in FY2015. This is mainly due to high inventory holding of 102 days (PY: 124 days) and debtors of 54 days (PY:26 days) in FY2016. Further, the company has stringent credit terms with suppliers wherein creditors stood at 11 days in FY2016 as against 27 days in FY2015. Thus, SSPL has elongated working capital cycle of 144 days in FY2016 as against 124 days in FY2015.

Applicable Criteria

- Manufacturing entities- <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>

Outlook – Stable

SMERA believes that SSPL's outlook will remain stable owing to its experienced management. The outlook may be revised to 'Positive' if the company is able to improve on its overall financial risk profile or scale up operations with improvement in profitability margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in financial risk profile.

About the Rated Entity:

For FY2015-16, SSPL reported net loss of Rs.0.11 crore on operating revenue of Rs.32.47 crore in FY2015-16 as compared to net loss of Rs.2.55 crore on operating income of Rs.29.62 crore in FY2014-15. The tangible net worth stood at Rs.20.57 crore as on March 31, 2016 as against Rs.20.69 crore as on March 31, 2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2018			FY2017		FY2016		FY2015	
	Scale	Amount (Rs. Cr.)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Term Loan	LT	5.00	SMERA B/Stable (Reaffirmed)	NA	NA	01 Feb, 2016	SMERA B/Stable (Reaffirmed)	17 April, 2015	SMERA B/ Stable (Upgraded)
Proposed Fund based	LT	2.00	SMERA B/Stable (Reaffirmed)	NA	NA	01 Feb, 2016	SMERA B/Stable (Assigned)	N.A	N.A
Export Packing Credit	ST	3.00	SMERA A4 (Reaffirmed)	NA	NA	01 Feb, 2016	SMERA A4 (Reaffirmed)	17 April, 2015	SMERA A4 (Reaffirmed)

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings
Term Loan	NA	NA	2020	5.00	SMERA B/ Stable (Reaffirmed)
Proposed Fund based	NA	NA	NA	2.00	SMERA B/ Stable (Reaffirmed)
Export Packing Credit	NA	NA	NA	3.00	SMERA A4 (Reaffirmed)

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head - Ratings Operations Tel: +91-22-6714 1190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Leena Gupta , Rating Analyst, Tel: +91-22-6714 1172 Email: leena.gupta@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smerra.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smerra.in) for the latest information on any instrument rated by SMERA.