

Press Release

Swan Silk Private Limited

July 12, 2018



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long term rating of '**ACUITE B** (read as ACUITE B) on the Rs.6.42 crore bank facilities of Swan Silk Private Limited (SSPL). The outlook is '**Stable**'.

Acuite has reaffirmed long term rating of '**ACUITE B** (read as ACUITE B) and short term rating of '**ACUITE A4** (read as ACUITE A four) on the Rs.3.58 crore 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. It is led by Mr. Govinda K S (Chairman) along with other Directors. The manufacturing facilities are located at Bangalore (Karnataka). Since February 2015, lease rentals have been yet another revenue source for the company. It has reputed clients like Aditya Birla Retail Limited, GAIL, BOSCH and J D Institute of Fashion Technology.

Key Rating Drivers

Strengths

- **Experienced management and established operational track record:**

SSPL was incorporated in 1986 and is led by Mr. Govinda K S (Chairman) and Directors, Mr. Vittal K. S, Mr. Radhusa K. S and others who have experience of around three decades. The extensive experience of the directors has led to established market presence of SSPL enabling it to build strong business ties with its suppliers and customers.

- **Moderate financial risk profile:**

SSPL's tangible net worth stood at Rs.19.10 crore as on 31 March, 2017 as against Rs.20.57 crore as on 31 March, 2016. This is mainly due to decline in reserves. The gearing (debt to equity) stood similar at 0.84 times as on 31 March, 2017 and 31 March, 2016. This is due to increase in short term debt to Rs.1.21 crore as on 31 March, 2017 which was nil as on 31 March, 2016. The total debt of Rs.16.01 crore as on 31 March, 2017 comprises Rs.4.64 crore of term loans, Rs.8.21 crore of unsecured loans from related parties and working capital borrowing of Rs.1.21 crore. SSPL's coverage indicators stood at Interest Coverage Ratio (ICR) of 1.21 times in FY2017 as against 1.95 times in FY2016. Total Other Liability/Total Net Worth (TOL/TNW) stood at 1.07 times in FY2017 as compared to 1.08 times in FY2016. Acuite believes that the financial risk profile of SSPL will improve mainly due to revenues from lease rental business.

Weaknesses

- **Small scale of operations with uneven revenues:**

SSPL has small scale operations of Rs.20.53 crore in FY2017 as against Rs.33.08 crore in FY2016 in spite of being in business since three decades. Further in FY2018 (Provisional), SSPL reported revenue of Rs.24.03 crore. The moderate scale of operation is due to scaling down of manufacturing operations and diversifying into lease rentals. For FY2018 (Provisional), the lease rental income stood at Rs.4.26 crore as against Rs.4.34 crore in FY2017 and Rs.4.08 crore in FY2016.

• **Working capital intensive operations:**

SSPL's operations remained working capital intensive as reflected in Gross Current Assets (GCA) of 228 days in FY2017 as against 160 days in FY2016. This is mainly due to high inventory holding of 131 days in FY2017 as against 102 days in FY2016 and debtors of 85 days in FY2017 as against 47 days in FY2016. Further, the company has stringent credit terms with suppliers wherein creditors stood at 28 days in FY2017 as against 11 days in FY2016. Thus, SSPL has elongated working capital cycle of 187 days in FY2017 as against 137 days in FY2016.

Analytical Approach

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

Outlook: Stable

Acuite 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 - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	20.53	33.08	30.23
EBITDA	Rs. Cr.	2.10	3.99	0.29
PAT	Rs. Cr.	(1.47)	(0.11)	(2.55)
EBITDA Margin	(%)	10.23	12.07	0.97
PAT Margin	(%)	(7.18)	(0.32)	(8.44)
ROCE	(%)	0.99	5.37	(3.32)
Total Debt/Tangible Net Worth	Times	0.84	0.84	0.93
PBDIT/Interest	Times	1.21	1.95	0.30
Total Debt/PBDIT	Times	7.19	4.03	50.59
Gross Current Assets (Days)	Days	228	160	210

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

None

Any other information

None

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>
- Manufacturing entities - <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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
26-May-2017	Term Loan	Long Term	5.00	ACUITE B/ Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	2.00	ACUITE B/ Stable (Reaffirmed)
	Packing Credit	Short Term	3.00	ACUITE A4 (Reaffirmed)
01-Feb-2016	Term Loan	Long Term	5.00	ACUITE B/ Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	2.00	ACUITE B/ Stable (Assigned)
	Packing Credit	Short Term	3.00	ACUITE A4 (Reaffirmed)
17-Apr-2015	Term Loan	Long Term	5.00	ACUITE B/ Stable (Upgraded)
	Packing Credit	Short Term	3.00	ACUITE A4 (Reaffirmed)
14-Mar-2014	Term Loan	Long Term	5.00	ACUITE B-/ Stable (Assigned)
	Packing Credit	Short Term	3.00	ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan - 1	Not Applicable	Not Applicable	Not Applicable	0.58	ACUITE B/ Stable (Reaffirmed)
Term Loan – 2	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B/ Stable (Assigned)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	3.00*	ACUITE A4 (Reaffirmed)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	1.42	ACUITE B/ Stable (Assigned)

*COD (sublimit of EPC/PCFC) Rs. 3.00 crore.

*Inland/Import LC (sublimit of EPC/PCFC) Rs. 3.00 crore.

*Buyers Credit (sublimit of EPC/PCFC) Rs. 3.00 crore.

Contacts

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About Acuité Ratings & Research:

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