

## Press Release

### Swan Silk Private Limited

July 12, 2018

### Rating Reaffirmed and Assigned



|                                     |                            |
|-------------------------------------|----------------------------|
| <b>Total Bank Facilities Rated*</b> | Rs. 10.00 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 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. Govindsa 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. Govindsa 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

| Analytical  | Rating Desk   |
|---|---|
| <p>Suman Chowdhury<br/>President - Rating Operations<br/>Tel: 022-67141107<br/><a href="mailto:suman.chowdhury@acuite.in">suman.chowdhury@acuite.in</a></p> <p>Leena Gupta<br/>Analyst - Rating Operations<br/>Tel: 022-67141172<br/><a href="mailto:leena.gupta@acuite.in">leena.gupta@acuite.in</a></p> | <p>Varsha Bist<br/>Manager - Rating Desk<br/>Tel: 022-67141160<br/><a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a></p> |

### About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

**Disclaimer:** An Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.