

Press Release

Swan Silk Private Limited

August 21, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs.10.00 Cr.
Long Term Rating	ACUITE BB-/Stable (Upgraded from ACUITE B/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB-** (**read as ACUITE double B minus**) from '**ACUITE B** (**read as ACUITE B**) on the Rs.10.00 crore bank facilities of SWAN SILK PRIVATE LIMITED (SSPL). The outlook is '**Stable**'.

The rating upgrade reflects improving net cash accruals, profitability and financial risk profile. The net cash accruals have improved from Rs.0.39 crore in FY2017 to Rs.4.48 in FY2018 and Rs.3.13 crore in FY2019 (Provisional). Further, Profit After Tax (PAT) has also increased to Rs.1.13 crore in FY2019 (Provisional), Rs.2.24 crore in FY2018 from net loss of Rs.1.47 crore in FY2017. Further, the rating is supported by experienced management and reputed clientele of the firm.

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. The company has let out 6 spaces on rental basis.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management and established operational track record:**

SSPL was incorporated in 1986 and is led by directors, Mr. Govinda K. S, Mr. Vittal K. S, Mr. Radhusa K. S and others, who have extensive 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. Acuité believes that the company will continue to benefit from its experienced management and established relationships with customers.

- Increase in scale of operations and profitability:**

SSPL's revenues had increased to Rs. 20.94 crore in FY2019 (Provisional) from Rs. 19.04 crore in FY2018. This is because of the increase in lease rental business which stood at Rs.7.10 crore in FY2019 (Provisional). The operating margins increased to 21.45 per cent in FY2019 (Provisional) from 7.33 per cent in FY2018. However, Profit after Tax (PAT) margin has deteriorated to 5.39 per cent in FY2019 (Provisional) from 11.76 per cent in FY2018. This is because of the high interest obligation and depreciation.

- Comfortable financial risk profile:**

The financial risk profile is comfortable marked by high net worth and debt protection measures and low gearing. The net worth of the company is high at Rs.22.38 crore as on 31 March, 2019 (Provisional) as against Rs.21.25 crore as on 31 March, 2018. The gearing of the company stood low at 0.59 times as on March 31, 2019 (Provisional) as against 0.66 times as on March 31, 2018. Total debt of Rs.13.30 crore consists of term loan of Rs.7.31 crore unsecured loans from promoters of Rs.4.09 crore and working capital facility of Rs.1.90 crore as on 31 March, 2019 (Provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 0.93 times as on 31 March, 2019 (Provisional) as against 0.99 times as on 31 March, 2018. Interest Coverage Ratio (ICR) stood at 3.23

times in FY2019 (Provisional) as against 5.93 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.24 times as on 31 March, 2019 (Provisional) as against 0.32 times as on 31 March, 2018. Debt Service Coverage Ratio (DSCR) stood at 1.22 times in FY2019 (Provisional) as against 1.87 times in FY2018.

Weaknesses

- **Working capital intensive operations:**

The working capital of SFL is intensive in nature marked by high Gross Current Asset (GCA) days of 190 for FY2019 (Provisional) as against 171 in the previous year. The debtor days stood 32 for FY2019(Provisional) and FY2018. Further, the inventory days stood at 89 for FY2019 (Provisional) as against 99 for FY2018. The average bank limit utilisation stood at ~60 to 70 per cent for last six months ending July 2019.

Liquidity Position:

SSPL has adequate liquidity marked by net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3.13 crore in 2019 (Provisional) as against Rs.4.48 crore in FY2018, while its maturing debt obligations were Rs.2.28 crore over the same period. The company's working capital operations are intensive marked by high gross current asset (GCA) days of 190 in FY2019 (Provisional). Further, the reliance on working capital borrowings is low, the cash credit limit in the company remains utilised at ~60 to 70 per cent during the last 6 months' period ended July, 2019. The company maintains unencumbered cash and bank balances of Rs.0.14 crore as on March 31, 2019 (Provisional). The current ratio of the company stands healthy at 3.41 times as on March 31, 2019 (Provisional).

Outlook: Stable

Acuité believes that the company will maintain 'Stable' outlook over the medium term on back of experience of its management. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in company's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	20.94	19.04	20.53
EBITDA	Rs. Cr.	4.49	1.39	2.10
PAT	Rs. Cr.	1.13	2.24	-1.47
EBITDA Margin	(%)	21.45	7.33	10.23
PAT Margin	(%)	5.39	11.76	-7.18
ROCE	(%)	8.22	9.36	0.99
Total Debt/Tangible Net Worth	Times	0.59	0.66	0.84
PBDIT/Interest	Times	3.23	5.93	1.21
Total Debt/PBDIT	Times	2.71	2.52	7.19
Gross Current Assets (Days)	Days	190	171	228

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.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. Cr.)	Ratings/Outlook
12-Jul-2018	Term Loan	Long Term	0.58	ACUITE B / Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE B / Stable (Assigned)
	Packing Credit	Short Term	3.00	ACUITE A4 (Reaffirmed)
	Proposed Bank Facility	Long Term	1.42	ACUITE B / Stable (Assigned)
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)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans 1	Not Applicable	Not Applicable	Not Applicable	0.58	ACUITE BB-/Stable (Upgraded from ACUITE B/Stable)
Term loans 2	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB-/Stable (Upgraded from ACUITE B/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB-/Stable (Upgraded from ACUITE B/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.42	ACUITE BB-/Stable (Upgraded from ACUITE B/Stable)

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About Acuité Ratings & Research:

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