



Rating Rationale

Ethnic Silk Mills

11Feb2019

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 25.00 Crores of Ethnic Silk Mills (ESM or The Firm).

Particulars

Facility Fund based	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Nov, 2017)	Present
PCFC/EBD/PSCFC Proposed PCFC/EBD/PSCFC	20.00 --	20.00 5.00	Short Term	BWR A4+ (Pronounced as BWR A Four plus)	BWR A4+ (Pronounced as BWR A Four Plus) (Reaffirmed)
Total	20.00	25.00	INR Twenty Five Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Note :proposed facility of Rs 5 Crs is proposed by the firm , which bank is yet to sanction

Ratings: Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financial results of FY18, Projections of FY20 and along with publicly available information, information/clarifications provided by the Firm’s management.

The ratings continues to factor the experience of the promoters, and satisfactory gearing profile, and liquidity position, satisfactory interest coverage indicator and improved profit margins. The ratings, however continue to be constrained by the decreased revenues, reduced net worth, working capital intensive nature of business, Highly fragmented and competitive industry, exposed to foreign currency price fluctuation risk and inherent risk.



Going forward, the ability of the Firm to increase its scale of operations along with profitability, manage working capital efficiently and improve its overall financial risk profile would be the key rating sensitivities.

Description of Key Rating Drivers

Credit Strengths:

- **Promoters Experience** - The promoters of the firm Mr. Syed Farook and Mr. Syed Mukkarram have more than a decade of experience in the field of silk industry
- **satisfactory gearing and liquidity position** - The firm's gearing stood at 0.72 times in FY18 and current ratio stood at 1.61 times in FY17, however the Packing Credit utilization is 90%..
- **Satisfactory interest coverage ratio and Improved profit margins** - Interest coverage ratio stood at 5.18 times in FY18 and net & operating profit margins improved from 2.74 % & 4.65% to 2.80% & 6.58% in FY18.

Credit Risks:

- **Marginally decreased revenue and net worth** - Revenues reduced from Rs. 57.65 Crs in FY17 to Rs. 54.78 Crs in FY18, Net worth reduced from Rs. 36.72 Crs in FY17 to Rs. 29.08 Crs in FY18 owing to withdrawal of capital .
- **Foreign currency price fluctuation risk**- import purchase constitute about 80 - 90 percent of raw material is procured from China.and is exposed to foreign price risk
- **Inherent risk** - Inherent risk of the firm being partnership and the capital getting withdrawn
- **Information Risk** : The firm has not provided bank statements for complete six months and provided only from Oct -Dec 2018 , which restricts bank statement analysis to 3 months only

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **Ethnic Silk Mills** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.



About the Firm

Ethnic Silk Mills is a partnership firm established in 2003 at Bangalore, Karnataka by Mr. Syed Farook and Mr. Syed Mukkarram are the partners of the firm having adequate experience in same line of business. The registered office and manufacturing units located in Beratena Agrahara, Village, Hosur Road, Bangalore. The firm is engaged into the manufacturing and export of silk and alloyed fabrics which are mix of different two and more fabric like linen, polyester Yarn, Flex yarn etc with total installed capacity of 7,50,000 meters per annum. The firm procures 80-90% of the raw material is imported from China. The firm majorly exports its final product to the customers in US and Europe. The firm has total manpower of 250 employees to carry out the day to day business operations.

Firm Financial Performance

As per FY18 audited financials the firm has reported revenue of Rs.54.78 Cr and PAT of Rs. 1.53 Cr.

Rating History for the last three years

S.No	Facility	Current Rating (2019)			Rating History		
		Type	Amount (₹ Crs)	Rating	6.11.2017	22.8.2016	2015
	Fund Based	Short Term	25.00	BWR A4+ (Pronounced as BWR A Four Plus) (Reaffirmed)	BWR A4+ (Pronounced as BWR A Four Plus)	BWR A4 (Pronounced as BWR A Four)	Not Rated
	Total		25.00	₹ Twenty Five Crores Only			

Status of non-cooperation with previous CRA - Not to our knowledge

Any other information - Nil



Key Financial Indicators

Key Parameters	Units	2016	2017	2018	2019	2020
Result Type		Audited	Audited	Audited	Projected	Projected
Operating Revenue	₹ in Crs	61.89	57.65	54.78	63.20	74.59
EBITDA	₹ in Crs	3.72	2.68	3.60	1.86	4.74
PAT	₹ in Crs	1.72	1.58	1.53	1.86	2.15
Tangible Net worth	₹ in Crs	37.15	36.72	29.08	37.11	36.74
Total Debt/Tangible Net worth	Times	0.55	0.42	0.72	0.71	0.66
Current Ratio	Times	2.24	2.49	1.61	1.36	1.45

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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For print and digital media



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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

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