Rating Rationale

Srinivas Export Garments

11 Jan 2018

Brickwork Ratings assigns BWR B+ (Outlook: Stable) the Bank Loan Facilities of Rs. 7.00 Crs of Srinivas Export Garments ('SEG' or 'the Concern')

Particulars

Facility*	Amount (Rs. Crs)	Tenure	Rating^
Fund Based Cash Credit	7.00	Long Term	**BWR B+** (Pronounced as BWR Single B Plus) **Outlook: Stable**
Total	**7.00 (INR Seven Crores Only)**		

^ Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
*Annexure-I provides details of bank wise facilities

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of the Firm upto FY17, publicly available information and information/clarifications provided by the management.

The rating draws strength from the proprietors' experience and association with established brands. The rating, however, is constrained by the below average credit profile marked by small scale of operations and low proprietors' capital and presence in a highly competitive industry.

Going forward, the ability of the Concern to increase its scale of operations, strengthen its credit profile and manage its working capital efficiently would be the key rating sensitivities.

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)

Key Rating drivers

Credit strengths

- **Proprietors' experience**
  The proprietor, Mr. Janardhan Rao, has 30 years of experience in trading of garments and footwear.

- **Healthy profit margins, comfortable gearing and debt coverage indicators**

SEG is a dealer of branded readymade garments, footwear and accessories. Its Operating profit margin was 12.35% in FY17 as against 16.79% in FY16. ISCR for FY17 was comfortable at 3.34 times as against 3.80 times for FY16. Further, due to the Concern's limited working capital borrowings, its overall gearing as on March 31, 2017 was comfortable at 0.74 times.

Credit Weaknesses

- **Small scale of operations**

  Due to decrease in demand from the wholesale customers resulting from temporary lack of liquidity in the economy on account of demonetisation, SEG's net sales declined by around 52% to Rs.12.27 Crs in FY17 as against Rs.25.65 Crs in FY16.

- **Proprietorship nature of the business and low capital**

  SEG being a proprietorship firm, is exposed to inherent risk of withdrawal of proprietor's capital. In FY17, the proprietor had withdrawn capital of Rs.1.52 Crs from the business for payment of income tax dues of Rs.1.24 Crs and balance for personal expenses of the proprietor. Owing to this, SEG's capital continued to be low at Rs.3.53 Crs as on March 31 2017 *vis-à-vis* Rs.4.03 Crs as on March 31 2016.

- **Presence in a highly competitive industry**

  SEG faces stiff competition from a large number of unorganised players present in dealership of branded garments and footwear products.

Rating Outlook: Stable

BWR believes SEG's 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 margins show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and margins show lower than expected figures.

Background:

Srinivas Export Garments (SEG) is a Bengaluru based proprietorship concern established in April 2000 by Mr. Janardhan Rao. SEG is engaged in trading of branded readymade garments, footwears and accessories of Nike, Puma, Allen Solly, US Polo, Peter England and Converse. SEG acts as an unsold inventory liquidation partner for these brands and purchases the unsold inventory from them at a discount price on cash basis and sells it to the retailers and wholesalers located pan India. The Concern has a godown admeasuring 44,000 sq.ft. at Okalipuram, Bangalore.

Financial Performance

During FY17, SEG reported net sales of Rs.12.27 Crs and PAT of Rs.1.03 Crs *vis-à-vis* net sales of Rs.25.65 Crs and PAT of Rs.3.26 Crs in FY16. During 9MFY18, the Concern has achieved sales of around Rs.14.87 Crs.

Key financial indicators are furnished in Annexure II.

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Rating History for the last three years:

Sl. No.	Instrument/ Facility	Current Rating (January 2018)			Rating History		
		Type	Amount (Rs. Crs)	Rating	2017	2016	2015
1	Cash Credit	Long Term	7.00	BWR B+ (Outlook : Stable) Assigned	N/A	N/A	N/A
	Total	**7.00**		**INR Seven Crores only**			

Status of Non cooperation with other CRA : Not applicable

Any other information : Not applicable.

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Trading Entities

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Srinivas Export Garments

Annexure I Details of Rated Bank Facilities

Bank	Facilities	Rated Amount (Rs. Crs)
Bank of Maharashtra, Gandhinagar Branch, Bengaluru	Cash Credit	7.00
	Total	**7.00**

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Annexure II
Key Financial Indicators

Particulars		FY16	FY17
Net Sales	(Rs. Cr)	25.65	12.27
EBITDA	(Rs. Cr)	4.31	1.52
PAT	(Rs. Cr)	3.26	1.03
Proprietor's Capital (PC) (Rs. Cr)		4.03	3.53
Total Debt: PC	(Times)	1.23	0.74
Current Ratio	(Times)	1.73	1.93

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

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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