

October 05, 2020

S A Trading Company: [ICRA]BB- (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Cash Credit	9.50	[ICRA]BB- (Stable); assigned
Total	9.50	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating favourably factors in the extensive experience of SA Trading Company's (SATC) promoters in handmade woollen/silken/pashmina shawls and other related product manufacturing industry. The rating also derives strength from the firm's established relationship with its customers. The rating further factors in the continuous improvement in SATC's operating income (OI) in the recent past, supported by the regular orders from its customers, its established track record in the industry and its quality products.

However, the rating is constrained by the firm's modest scale of operations. The rating is further constrained by the high client-concentration risk to which SATC is exposed. The rating also takes into consideration the high working capital intensity, as payments from customers are prolonged against low payable days and high inventory position. The rating further considers the moderate credit profile of the firm with moderate gearing and debt coverage indicators. ICRA also notes that SATC is a proprietorship firm and hence, any significant withdrawals from the capital account by the proprietor could adversely affect its net worth and in turn, its capital structure.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that the firm will continue to benefit from its long track record in the handmade authentic woollen/silken/pashmina shawls, scarfs, mufflers and other related product manufacturing business. Its experienced management and established relationship with customers are other credit strengths.

Key rating drivers and their description

Credit strengths

Experienced management with long track record in woollen/silken/pashmina-based shawls manufacturing industry: SATC was incorporated in 2006 and has witnessed a successful operational track record in the handmade authentic woollen/silken/pashmina shawls, scarfs, mufflers and other related product manufacturing business. The promoters have more than two decades of experience in the handmade authentic woollen/silken/pashmina shawls and related item manufacturing industry, which has created a strong regional presence for it.

Long association with customers: The firm has been dealing with its key clients for more than a decade. Over these last several years, the promoters have developed a strong working relationship with its clients, which ensures regular and steady orders from the same. The rating further factors in the continuous improvement in

SATC's OI in the recent past, supported by the regular orders it gets from its customers, its established track record in the industry and its quality products. The trading business of good quality winter garments (sold under OOSHIN brand name and possess high brand recognition in cold regions of India) has also significantly supported the firm's OI growth in the recent past. Its OI grew to ~Rs. 29.71 crore in FY2020 from ~Rs. 5.99 crore in FY2016 at an average annual growth rate of ~51%.

Credit challenges

Modest scale of operations restricts competitive position: SATC is a medium-sized manufacturer of a wide range of handmade authentic woollen/silken/pashmina shawls, scarfs, mufflers and other related products. It also sells strong quality imported winter garments. The firm reported an OI of ~Rs. 29.71 crore in FY2020. Its existing scale of operations remains smaller than the big-sized players in the woollen/silken/pashmina-based products and winter garments manufacturing industry. This constrains its ability to benefit from economies of scale and weighs on its competitive position vis-à-vis the large-sized entities. Further, a modest scale exposes it to the risk of a business downturn and limits the firm's ability to absorb a temporary disruption and leverage fixed costs.

High working capital intensity: The firm's working capital cycle remains high as the receivable days are stretched due to elongated realisations from customers and timely payments to suppliers. It offers high credit period to its existing clientele to retain the same, which leads to its high working capital (WC) intensity. Also, the firm has a long operating cycle and needs to maintain high inventory to meet orders on time, which further leads to high WC intensity. The working capital intensity (NWC/OI) stood at ~33% in FY2020 against ~50% in FY2019.

High client-concentration risk: SATC has high client-concentration risk as most of the revenues originate from a few customers. The firm derived 88% of its overall OI from the top 10 clients in FY2019 and FY2020. The client-concentration risk, although is high, is mitigated to some extent by SATC's established relationship with these clients and repeat high-value orders it secures from the same.

Moderate gearing and debt coverage indicators: The credit profile of the firm has been moderate with gearing of 1.51 times as on March 31, 2020 against the gearing of 3.34 times in the last year. The moderate gearing was primarily a result of modest net worth, moderately high utilisation of fund-based limits, minimal long-term loans (vehicle loans) and unsecured loans from promoters. Owing to moderate debt (primarily WC borrowings) and thin profitability (as inherent in the nature of the operations), the debt protection measures have been moderate with interest coverage at 1.58 times, NCA/TD at 7.31% and DSCR at 1.58 times as on March 31, 2020.

Risks related to construction as proprietorship firm: ICRA also notes that SATC is a proprietorship firm and hence, any significant withdrawals from the capital account by the proprietor could adversely affect its net worth and capital structure.

Liquidity position: Stretched

The firm's liquidity position is **stretched**. The firm had unencumbered cash and bank balance of ~Rs. 0.3 crore as of March 2020 (as per the management), and the fund-based limit utilisation averaged at 68% in FY2020. With its business expected to chart a modest growth trajectory with thin net profitability metrics, high WC requirement but minimal debt repayment schedules in the medium term, its liquidity is estimated to remain

stretched. Further, the current scenario due to the novel coronavirus (Covid-19) pandemic (which may lead to disruptions in payments from the customers and elongation of the receivables cycle) could exert pressure on the liquidity position. Also, significant capital withdrawal may put pressure on the liquidity position.

Rating sensitivities

Positive triggers: ICRA could upgrade the above long-term rating if the firm demonstrates a healthy and sustained improvement in its scale and profitability, with improvement in liquidity position. Specific credit metrics that could lead to an upgrade of the firm's rating include interest coverage greater than 2.0 times on a sustained basis.

Negative triggers: Significant decline in OI or operating profitability could exert negative pressure on the firm's rating. Further, stretch in the working capital cycle or significant withdrawal of capital could exert negative pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial profile of the firm

About the company

SA Trading Company (SATC) was incorporated in 2006 by Mr. Mohammad Ashraf Beigh as a proprietorship firm. The firm is promoted by Mr. Mohammad Ashraf Beigh and his family members. It manufactures a wide range of handmade authentic woollen/silken/pashmina shawls, scarfs, mufflers and other related products. In the recent past, it also started trading business of imported winter garments (sold under the brand name OOSHIN) in the cold regions of India. SATC's registered office and all manufacturing units are located in Srinagar (Jammu and Kashmir).

Key financial indicators

	FY2019 Audited	FY2020 Audited
Operating Income (Rs. crore)	18.58	29.71
PAT (Rs. crore)	0.13	0.61
OPBDIT/OI (%)	2.18%	5.80%
PAT/OI (%)	0.68%	2.04%
Total Outside Liabilities/Tangible Net Worth (times)	3.35	2.65
Total Debt/OPBDIT (times)	24.49	3.73
Interest Coverage (times)	1.69	1.58

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			
		Type	Amount Rated	Amount Outstanding	Rating
					5-October-2020
1	Fund based -Cash Credit	Long Term	9.50	5.30*	[ICRA]BB- (Stable)

Amount in Rs. Crore

** As on March 31, 2020 (based of SATC's audited financials for FY2020)*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISI	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term – Fund based - Cash Credit	-	-	-	9.50	[ICRA]BB- (Stable)

Source: SATC

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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