

## S.K. Exports

July 30, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Packing credit	7.85	7.85	[ICRA]A4; reaffirmed
Non-fund-based – Letter of credit	0.25	0.25	[ICRA]A4; reaffirmed
Unallocated	1.40	1.40	[ICRA]A4; reaffirmed
<b>Total</b>	<b>9.50</b>	<b>9.50</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 7.85 crore<sup>1</sup> packing credit facility, Rs. 0.25 crore letter of credit facility and Rs. 1.40 crore of unallocated limit of S.K. Exports (SKE of or the firm)<sup>2</sup>.

### Rationale

The rating reaffirmation is constrained by the erosion in SKE's net worth due to large withdrawal by partners from the business given its status as a partnership concern. Moreover, high reliance on external debt with near to full utilisation of working capital borrowings during the past two years and high finance costs have resulted in weak coverage ratios of TD/OPBDITA of 6.4 times and interest coverage ratio of 1.0 times as on March 31, 2017. Further, the rating also remains constrained by the firm's small scale of operation coupled with sharp de-growth in operating income in FY2018 due to weak export sales which remains susceptible to cyclicity in demand pattern owing to changes in customer preferences and fashion trends. Also, the firm's profitability remains low due to SKE's small scale of operation, addition of low margin product – elastic tapes and the limited value-additive nature of yarn processing and elastic tapes manufacturing business. The rating also remains constrained by the firm's presence in the highly fragmented textile industry characterised by intense competition from other low-cost domestic as well as overseas exporters.

The rating, however, favourably factors in the extensive experience of the promoters spanning over three decades in the polyester yarn export business.

### Key rating drivers

### Credit strengths

**Extensive experience of partners in the polyester yarn export industry spanning over three decades** – SKE is a part of SKK Group which was established in 1984. The firm's partners have extensive experience in the yarn processing and export industry which enables them to receive repeated orders from the established customers in Middle East, Europe and USA.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Credit challenges

**Small scale of operations; revenue growth susceptible to cyclical demand pattern owing to changes in customer preferences and fashion trends** – The firm has a small scale of operations and has witnessed revenue de-growth with negative CAGR of 4% in the from FY2013 (OI – Rs. 30.5 crore) to FY2017 (OI – ~Rs. 25.4 crore). The firm registered even higher revenue de-growth in FY2018, with revenue decreasing by ~35% to ~Rs. 16.4 crore due to reduced demand for polyester yarn from middle east and European countries as a result of change in fashion trends and customer preferences.

**Capital structure has witnessed significant deterioration on account of net worth erosion arising from large withdrawals from the business** – Given the partnership status of the firm, there have been considerable capital withdrawals in the past three years (Rs. 5.4 crore) to pay off the outgoing partners as a consequence of change in constitution of the firm in FY2016, thereby resulting erosion of net worth as on March 31, 2017.

**High reliance on external debt and modest profitability has resulted in weak coverage indicators** – The firm's high reliance on external debt as evident from near to full utilisation of working capital borrowings has resulted weak coverage ratios of TD/OPBDITA of 6.4 times and interest coverage ratio of 1.0 times as on March 31, 2017. The firm ventured in manufacturing and exporting elastic tapes in FY2016. It is more labour intensive than the existing products in the firm's portfolio, thereby reducing the profitability from 10.6% in FY2015 to 3.6% in FY2017. Further, limited value addition in the yarn processing and elastic tapes manufacturing business keeps the profit margins constricted.

**High suppliers' and customers' concentration risk** – The customer profile for SKE consists of carpet manufacturers (for polyester yarn) and readymade garment manufacturers (for elastic tapes) across the world, especially Middle East and Europe. Historically the customer concentration risk for the firm has remained high with top 5 customers accounting for more than 60% of the total sales. The main raw material required by the firm is Polyester Filament Yarn procured domestically by the firm. The firm's suppliers' concentration has remained high with top five suppliers accounting for more than 85% of the total purchases over the years.

With high customers' and suppliers' concentration risk, the bargaining power of the firm remains low, thereby affecting the profitability of the firm.

**Intense competition, given the low complexity of work involved** - The firm faces stiff competition from other domestic and overseas exporters in the highly fragmented textile industry, which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Indian Textiles Industry– Spinning](#)

## About the firm:

S. K. Exports, established in 2008, is a part of S. K. Group of companies managed by MR. Nitin Motani and Mohit Motani. The group, set up in 1984, is a major integrated narrow fabric exporter in India. SKE exports polyester yarn in different colours, sizes and shapes under the brand name 'Cordytex' for carpets industry. The firm has also started exports of elastic tapes and hooks used in lingerie and other garments in FY2016.

In FY2017, on audited basis, the firm reported a net profit of Rs. 0.3 crore on an operating income of Rs. 25.4 crore, as compared to a net profit of Rs. 0.3 crore on an operating income of Rs. 22.3 crore in the previous year.

### Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	22.3	25.4
PAT (Rs. crore)	0.3	0.3
OPBDIT/OI (%)	4.5%	3.6%
RoCE (%)	19.5%	22.0%
Total Debt/TNW (times)	11.1	(3.6)
Total Debt/OPBDIT (times)	6.1	6.4
Interest coverage (times)	1.0	1.0

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

Instrument		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
						July 2018	April 2017	June 2016	-
1	Packing Credit	Short Term	7.85	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	-	
2	Letter of Credit	Short Term	0.25	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	-	
3	Unallocated	Short Term	1.40	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	-	

### 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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Packing Credit	-	-	-	7.85	[ICRA]A4
NA	Letter of Credit	-	-	-	0.25	[ICRA]A4
NA	Unallocated	-	-	-	1.40	[ICRA]A4

Source: S.K. Exports

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