

October 18, 2014

Facilities	Amount (Rs. crore)	Ratings
Export Packing Credit*	9.00	SMERA BBB-/Stable (Assigned)
Letter of Credit	2.50	SMERA A3 (Assigned)
Bank Guarantees	0.25	SMERA A3 (Assigned)
Proposed Letter of Credit	0.50	SMERA A3 (Assigned)

*Interchangeable with cash credit facility to the extent of Rs.1.00 crore; includes FBP/FBD/PSFC as sub limit to the extent of Rs.2.00 crore

SMERA has assigned ratings of '**SMERA BBB-**' (read as SMERA triple B minus) to the Rs.9.00 crore long-term bank facilities and '**SMERA A3**' (read as SMERA A three) to the Rs.3.25 crore short-term bank facilities of Vrijesh Corporation (VC). The outlook is '**Stable**'. The ratings are supported by the firm's diversified revenue mix, reputed clientele, comfortable financial profile and assured cash flows (from lease rental income). The ratings are also supported by the operational synergies shared by the firm with its group entities. The ratings draw comfort from the firm's moderate working capital requirements and experienced management. However, the ratings are constrained by the susceptibility of the firm's profit margins to volatility in raw material prices and fluctuations in foreign exchange rates. The ratings are also constrained by the stagnancy of the firm's revenues amidst intense competition in the textile industry. The ratings factor in risks related to the partnership constitution of the firm.

VC, established in 1970, is a Mumbai-based partnership firm engaged in trading of yarn (sourced through imports) and fabric. VC also undertakes export of apparels, accessories and home textiles, which are designed in-house and manufactured by group entities. VC caters to several reputed customers including Zara, Texdécör and Raymond Zambaiti Limited.

VC's comfortable financial profile is reflected in gearing (total outside liabilities to tangible net worth ratio) of 0.98 times (provisional) and current ratio of 1.77 times (provisional) as on March 31, 2014. The firm benefits from assured cash flows from lease rental income, which amounted to Rs.1.31 crore (provisional) in FY2013-14 (refers to financial year, April 01 to March 31). VC also benefits from the operational support derived from its group entities engaged in undertaking designing, weaving, dyeing, stitching and embroidery work. The firm's moderate working capital intensity results from comfortable working capital cycle of 50 days (provisional) in FY2013-14. VC benefits from its experienced management. Mr. Vrijesh Agarwal, managing partner of VC, has around 23 years of experience in the textile industry.

VC's profit margins are susceptible to volatility in raw material prices. The firm's profitability is also exposed to forex fluctuation risk arising on un-hedged import purchases; however, the forex risk is

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partly offset by natural hedge arising from export sales. The firm's revenues have remained stagnant in the range of Rs.45.00 crore to Rs.49.00 crore (provisional) during the past three years. VC operates in a highly competitive textile industry. The firm's financial risk profile is susceptible to withdrawal of capital, which is an inherent risk in partnership entities.

Outlook: Stable

SMERA believes VC will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its established operations, healthy operating efficiency and experienced management. The outlook may be revised to 'Positive' in case the firm registers significant improvement in business risk profile while maintaining healthy financial risk profile. The outlook may be revised to 'Negative' in case of deterioration in the firm's financial profile. The firm's ability to register healthy growth in revenue and operating profit margins while maintaining comfortable financial risk profile and efficient working capital management is a key rating sensitivity.

About the firm

VC, established in 1970, is a Mumbai-based partnership firm founded by Mr. C. L. Agarwal. VC is primarily engaged in trading of yarn (sourced through imports) and fabric. The firm also undertakes export of apparels, accessories and home textiles, which are designed in-house and manufactured by group entities.

VC plans to incur capital expenditure of Rs.7.92 crore towards setting up a computerized fancy yarn spinning unit with installed capacity of 4,50,000 kilograms per annum in Vapi, Gujarat. The aforementioned capital expenditure is likely to be funded through internal sources of the firm.

For FY2013–14 (as per provisional financial statements), VC reported net profit of Rs.2.85 crore on total operating income of Rs.49.37 crore, as compared with net profit of Rs.2.45 crore on total operating income of Rs.46.91 crore in FY2012–13. The firm's net worth stood at Rs.15.81 crore (provisional) as on March 31, 2014, as compared with Rs.12.68 crore a year earlier.

Contact List:

Media/Business Development	Analytical Contacts	Rating Desk
Mr. Virendra Goyal Vice President – SME Sales Tel: +91-22-6714 1177 Cell: +91 9930074009 Email: virendra.goyal@smera.in Web: www.smera.in	Mr. Ashutosh Satsangi Vice President – Operations Tel: +91-22-6714 1107 Email: ashutosh.satsangi@smera.in	Tel: +91-22-6714 1170 Email: ratingdesk@smera.in

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