

### Guhan Textile Mills Private Limited: Assigned

| Facilities                 | Amount (Rs Crore) | Ratings/Outlook  |
|----------------------------|-------------------|--|
| Open Cash Credit*          | 14.00             | SMERA B-/Stable<br>(Suspension Revoked, Rating Assigned) |
| Term Loan                  | 2.55**            | SMERA B-/Stable<br>(Suspension Revoked, Rating Assigned) |
| One time FLC/Buyers Credit | 0.65              | SMERA A4 (Assigned)                                      |
| Inland Letter of Credit    | 3.00              | SMERA A4<br>(Suspension Revoked, Rating Assigned)        |
| Proposed Open Cash Credit  | 0.80              | SMERA B-/Stable (Assigned)                               |

\*Sublimit of CCBD of Rs.5.00 crore

\*\*Availed only Rs.2.55 crore out of Rs.5.00 crore term loan

SMERA has revoked the suspension of rating and assigned long term rating of '**SMERA B-**' (**read as SMERA B minus**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) to the above mentioned Rs.21.00 crore bank facilities of Guhan Textile Mills Private Limited (GTMPL). The outlook is '**Stable**'.

SMERA had on November 02, 2015 suspended the rating for lack of necessary information from Guhan Textile Mills (P) Limited (GTMPL). The company has now shared the requisite information, enabling SMERA to assign a rating to the bank facilities.

For arriving at the ratings, SMERA has consolidated the business and financial risk profiles of Guhan Textile Mills (P) Limited (GTMPL) and Parani Spinning Mills (P) Limited (PSMPL), together referred to as the Parani Group. The group has significant operational and financial linkages apart from a common management.

The ratings are constrained by the below average financial risk profile, low profitability and working capital intensive operations. However, the ratings are supported by the experienced management. The Parani Group is engaged in the manufacture of hosiery yarns. The group has below average financial risk profile. The overall gearing stands high at around 10.14 times as on March 31, 2016 with networth of around Rs.4.74 crore. The total debt of Rs.48.07 crore mainly includes unsecured loan of Rs.7.25 crore from promoters and related party, term loan of Rs.2.01 crore, short term borrowing of Rs.37.66 crore and CPLTD of Rs.1.16 crore. The interest coverage ratio is low at 0.94 times and DSCR is 1.26 times in FY2016. The net profit stands low at Rs.1.53 crore which is largely supported by non-operating income of Rs.5.25 crore in FY2016.

The group's operations are working capital intensive with high GCA of around 178 days in FY2016 owing to high inventory of around 118 days and debtor's of around 54 days. PSMPL's average working capital utilisation stood high at 98.76 per cent and for GTMPL it has been 98.12 per cent during April to September, 2016.

However the group benefits from its experienced management. Mr. Karuppuswamy and Mr. Krishnaswamy possess experience of around four decades in the textile industry.

### Rating Sensitivity Factors

- Scaling up of revenues and profitability
- Improvement in capital structure
- Efficient working capital management

### Criteria applied to arrive at the ratings:

- Manufacturing Entities

### Outlook – Stable

SMERA believes that the outlook of the group will remain stable owing to the extensive experience of the promoters in the business. The outlook may be revised to 'Positive' if the company is able to improve on its overall financial risk profile or scale up operations with improvement in profitability margins. Conversely, the outlook may be revised to 'Negative' in case of additional working capital borrowings leading to deterioration in the overall gearing or weakening of profitability margins or larger than expected debt funded capex plan.

### About the Group

GTMPL, incorporated in 1992, is managed by Mr. Karuppusamy and family. The company is engaged in the manufacture of cotton hosiery combed and slub yarns ranging from 25 to 66s counts and has an installed capacity of 40,944 spindles. The manufacturing unit is located at Dindigul, Tamil Nadu.

PSMPL, incorporated in 1988, is managed by Mr. Karuppusamy and family. PSMPL is engaged in the manufacture of cotton hosiery combed and melange yarns ranging from 25 to 66s counts. The company has an installed capacity of 38,912 spindles. The manufacturing unit is located at Vedasandur, Dindigul.

For FY2015-16, the Parani Group reported profit after tax (PAT) of Rs.1.53 crore on operating income of Rs.124.80 crore, as compared to PAT of Rs.0.65 crore on operating income of Rs.135.39 crore in FY2014-15.

### Rating History

| Date                  | Facilities                 | Amount<br>(Rs. Crore) | Ratings                |                        | Rating<br>Outlook |
|-----------------------|----------------------------|-----------------------|------------------------|------------------------|-------------------|
|                       |                            |                       | Long Term              | Short Term             |                   |
| 02 November,<br>2015  | Term Loan                  | 5.90                  | SMERA D<br>(Suspended) | -                      | -                 |
|                       | Open Cash Credit*          | 12.00                 | SMERA D<br>(Suspended) | -                      | -                 |
|                       | Inland Letter of<br>Credit | 3.00                  | -                      | SMERA D<br>(Suspended) | -                 |
| 15 September,<br>2014 | Term Loan                  | 5.90                  | SMERA D<br>(Assigned)  | -                      | -                 |
|                       | Open Cash Credit*          | 12.00                 | SMERA D<br>(Assigned)  | -                      | -                 |
|                       | Inland Letter of<br>Credit | 3.00                  | -                      | SMERA D<br>(Assigned)  | -                 |

\*Sublimit of CCBD of Rs.5.00 crore

**Contacts:**

| <b>Analytical</b>   | <b>Business Development</b>  |
|---|--|
| Mr. Mohit Jain<br>Vice President – Ratings<br>Operations,<br>Tel: +91-22-6714 1105<br>Cell: 9619911017<br>Email: <a href="mailto:mohit.jain@smera.in">mohit.jain@smera.in</a> | Mr. Suman M<br>Vice President – Business<br>Development, Corporate Ratings<br>Tel: +91-22-6714 1151<br>Cell: +91-9892306888<br>Email: <a href="mailto:suman.m@smera.in">suman.m@smera.in</a> |

**ABOUT SMERA**

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