

Press Release

GUHAN TEXTILE MILLS PRIVATE LIMITED

06 March, 2018

Rating Reaffirmed



| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 21.00 Cr. |
| Long Term Rating | SMERA B- / Outlook: Stable |
| Short Term Rating | SMERA A4 |

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA B-**' (**read as SMERA B minus**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 21.00 crore bank facilities of GUHAN TEXTILE MILLS PRIVATE LIMITED. The outlook is '**Stable**'.

GTMPL incorporated in 1992 is managed by Mr. Karuppusamy and his family members. It is engaged in manufacturing of cotton hosiery combed and slub yarns ranging from 25 to 66s counts. GTMPL has its manufacturing unit at Vedasandur Dindigul. The company has an installed capacity of 40944 spindles and production capacity of 9000 kgs. per day. The company is utilising 90-95 percent of its production facilities.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

Mr. Karuppuswamy has an experience of over 40 years in yarn industry and looks after the operations of both the companies engaged in similar line of business. Also, the group enjoys a long standing record of operations which enables the company to get repeat orders.

Weaknesses

- Susceptibility of margins to raw material price fluctuations**

Prices of raw cotton are stated by government through Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with the suppliers as well. Any adverse movement of cotton prices further impacts the profitability.

- Working capital intensive operations**

The group's operations are working capital intensive with high GCA of around 255 days in FY17 with high inventory of around 145 days and debtors of around 63 days. The group is utilising almost 100% of its facility.

- Presence in a high competitive and fragmented yarn industry**

The industry is fragmented and competitive with presence of large number of unorganized players.

- Profitability largely supported by non-operating income**

The net profit of Rs.0.72 crore of the group is largely supported by non-operating income of Rs.7.25 crore in FY2017. The non-operating income is mainly on account of profit on sale of windmills.

- Below average financial risk profile**

The overall gearing stands high at around 11.90 times as on March 31, 2017. The group has a low net worth of Rs.5.47 Crore. Total debt of Rs.65.04 crore mainly includes unsecured loans of Rs.22.58 crore from promoters & related party, term loan of Rs.0.44 crore, short term borrowing of Rs.38.00 crore and CPLTD of Rs.1.42 crore. There is high dependence of external funds due to which gearing levels shoot up. The interest

coverage ratio is low at 1.46 times and DSCR is 1.29 times in FY2017.

Analytical Approach

SMERA has consolidated the financial and business risk profiles of Parani Spinning Mills Private Limited (PSMPL) and Guhan Textiles Mills Private Limited (GTMPL) on account same promoters, similar line of & financial fungibility.

Outlook: Stable

SMERA believes the Group outlook will remain stable owing to long experience of the promoters in the business. The outlook may be revised to 'Positive' if company is able to improve on its overall financial risk profile or scale up the 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.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 117.06 | 124.80 | 135.39 |
| EBITDA | Rs. Cr. | 3.71 | 7.13 | 11.21 |
| PAT | Rs. Cr. | 0.72 | 1.53 | 0.65 |
| EBITDA Margin | (%) | 3.17 | 5.71 | 8.28 |
| PAT Margin | (%) | 0.62 | 1.22 | 0.48 |
| ROCE | (%) | 11.71 | 15.31 | 28.37 |
| Total Debt/Tangible Net Worth | Times | 11.90 | 12.78 | 16.76 |
| PBDIT/Interest | Times | 1.46 | 1.66 | 1.52 |
| Total Debt/PBDIT | Times | 5.94 | 4.81 | 4.69 |
| Gross Current Assets (Days) | Days | 255 | 215 | 136 |

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Consolidation Of Companies - <https://www.smera.in/criteria-consolidation.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|-------------------|
| 05-Dec-2016 | Cash Credit | Long Term | INR 14 | SMERA B- / Stable |
| | Term Loan | Long Term | INR 2.55 | SMERA B- / Stable |
| | Buyers Credit | Short Term | INR 0.65 | SMERA A4 |
| | | | | |

| | | | | |
|-------------|----------------------|------------|---------|-------------------|
| | Letter of Credit | Short Term | INR 3 | SMERA A4 |
| | Proposed Cash Credit | Long Term | INR 0.8 | SMERA B- / Stable |
| 02-Nov-2015 | Cash Credit | Long Term | INR 12 | SMERA D |
| | Term Loan | Long Term | INR 5.9 | SMERA D |
| | Letter of Credit | Short Term | INR 3 | SMERA D |
| 15-Sep-2014 | Cash Credit | Long Term | INR 12 | SMERA D |
| | Term Loan | Long Term | INR 5.9 | SMERA D |
| | Letter of Credit | Short Term | INR 3 | SMERA D |

*Annexure - Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|-------------------|
| Term loans | Not Applicable | Not Applicable | Not Applicable | 14.00 | SMERA B- / Stable |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 1.70 | SMERA B- / Stable |
| Buyers Credit | Not Applicable | Not Applicable | Not Applicable | 2.00 | SMERA A4 |
| Letter of credit | Not Applicable | Not Applicable | Not Applicable | 3.00 | SMERA A4 |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 0.30 | SMERA B- / Stable |

Contacts

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ABOUT SMERA

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