

## Press Release

11 August, 2017



### MSP Velayutha Nadar Unit Sree Murugan Tile Works

#### Rating Reaffirmed

<b>Total Bank Facilities Rated *</b>	Rs. 5.82 Cr.
<b>Long Term Rating</b>	SMERA B+ / Outlook: Stable

\* Refer Annexure for details

#### Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA B+**' (**read as SMERA B plus**) on the Rs. 5.82 crore bank facilities of Msp Velayutha Nadar (Unit Sree Murugan Tile Works). The outlook is '**Stable**'.

MSP Velayutha Nadar (MSPVN), a proprietorship firm established in 1965 by Mr. V. Kaliappan, Mr V. K. Lakshmi Anand and Mr. K.L. Mithunvel was converted to a partnership firm in 2011. The firm, located at Tirunelveli, Tamil Nadu is engaged in the manufacturing of tiles and bricks and has installed capacity of 50,000 tiles per day.

#### Key Rating Drivers

##### Strengths

- **Experienced management**

Mr. V. Kaliappan, the managing partner has more than five decades of experience in the ceramics industry while Mr V. K. Lakshmi Anand, the partner and son of Mr.V. Kaliappan has more than a decades experience.

- **Healthy profitability**

The operating profit improved substantially in FY2016 to 42.11 percent over the 38.17 percent in the previous year. Further, with increase in sales and control over overheads, the net profit margin increased to a healthy 21.95 per cent in FY2016 from 13.09 in FY2015.

- **Moderate financial risk profile**

The gearing improved to 0.95 times as on March 2016 as against 2.43 times in the previous year. Moreover, around 43.50 per cent of the total borrowings are interest free unsecured loans from promoters. The interest coverage ratio has been healthy at 6.08 times in FY2016 as against 4.22 times in FY2015.

##### Weaknesses

- **Low scale of operations**

While revenue grew at a healthy CAGR of ~26 per cent over the past five years ended FY2016, the scale of operations has been low with operating income of Rs. 8.41 crore for FY2016 (considering the five decade operational track record). Moreover, as informed by the management, the firm reported revenue of Rs. ~9.00 crore in FY2017.

- **Geographic concentration risk**

As informed by the management, the firm generates maximum revenue from its showroom at Tirunelveli. As a result, the profit margins are exposed to geographic concentration risk.

- **Susceptibility of margins to volatility in the prices of raw materials**

Since the prices of raw material, i.e., clay are market driven, the profit margins are susceptible to fluctuations in the prices of raw materials. Moreover, the firm is also exposed to intense competition in the industry from established players and the unorganised sector.

- **Constitution of the firm**

Owing to the partnership constitution, the firm is exposed to risk of capital withdrawal at will by partners.

### **Analytical Approach**

SMERA has considered the standalone business and financial risk profiles of MSPVN.

#### **Outlook: Stable**

SMERA believes that MSPVN will maintain a stable outlook in the medium term owing to its long track record of operations and experienced management. The outlook may be revised to 'Positive' if the firm improves its scale of operations and registers healthy profitability. Conversely, the outlook may be revised to 'Negative' if the firm fails to scale up operations and registers deterioration in its financial profile.

#### **About the Rated Entity - Key Financials**

For FY2015-16, MSPVN reported profit after tax (PAT) of Rs.1.85 crore on operating income of Rs.8.41 crore, compared with PAT of Rs.0.99 crore on operating income of Rs.7.59 crore in FY2014-15. The networth stood at Rs. 5.84 crore as on 31 March, 2016 as against Rs.3.78 crore as on 31 March, 2015.

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

Not applicable

#### **Any other information**

None

#### **Applicable Criteria**

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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
28-Jun- 2017	Cash Credit	Long Term	INR 1.00	SMERA B+/ Stable (Indicative)
	Term Loans	Long Term	INR 4.82	SMERA B+/ Stable (Indicative)
15-Apr-2016	Cash Credit	Long Term	INR 1.00	SMERA B+/ Stable (Reaffirmed)
	Term Loans	Long Term	INR 4.82	SMERA B+/ Stable (Reaffirmed)
23-Mar-2015	Term Loan	Long Term	INR 2.08	SMERA B+/ Stable (Assigned)
	Term Loan	Long Term	INR 2.78	SMERA B+/ Stable (Assigned)
	Cash Credit	Long Term	INR 1.00	SMERA B+/ Stable (Assigned)

### \*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	4.82	SMERA B+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA B+ / Stable

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## ABOUT SMERA

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