



SMERA RATINGS LIMITED

Sri Pavithra Cotton Mills Private Limited (SPCMPL)

*Rating
Rationale*

March 27, 2015

Facility	Amount (Rs. Crore)	Rating
Cash Credit	5.00	SMERA B/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA B**' (read as **SMERA single B**) to the abovementioned bank facility of Sri Pavithra Cotton Mills Private Limited (SPCMPL). The outlook is '**Stable**'. The rating derives comfort from the company's experienced management and established relations with customers. However, the rating is constrained by the company's small-scale operations in a highly competitive industry. The rating is also constrained by the company's weak financial risk profile. The rating notes that the company's profit margins are susceptible to volatility in raw material prices.

SPCMPL, incorporated in 2005, is a Coimbatore-based company engaged in manufacturing of cotton yarn (count range of 20–60). SPCMPL benefits from its experienced management. The promoters of the company have around two decades of experience in the textile industry. SPCMPL also benefits from its long-standing relations with customers.

SPCMPL has small-scale operations with operating income of Rs.20.84 crore in FY2013–14. The company faces intense competition from several players in the textile industry. SPCMPL's weak financial risk profile is reflected in low net worth of Rs.3.57 crore as on March 31, 2014, muted operating margin of 3.53 per cent in FY2013–14 and moderate return on capital employed (RoCE) of 8.60 per cent in FY2013–14. The company's profit margins are susceptible to volatility in prices of raw material.

Outlook: Stable

SMERA believes SPCMPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and established relations with customers. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in profit margins. The outlook may be revised to 'Negative' in case of deterioration in the company's operating margins or working capital management.

About the company

SPCMPL, incorporated in 2005, is a Coimbatore-based company promoted by Mr. A. Karunakaran and Mr. K. Shanmugapriya. SPCMPL is engaged in manufacturing of cotton yarn (count range of 20–60).

For FY2013–14, SPCMPL reported profit after tax (PAT) of Rs.0.12 crore on operating income of Rs.20.84 crore, as compared with PAT of Rs.0.11 crore on operating income of Rs.18.98 crore in FY2012–13. The company's net worth stood at Rs.3.57 crore as on March 31, 2014, as compared with Rs.3.54 crore a year earlier.

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