August 11, 2014

Facilities	Amount (Rs. Crore)	Ratings
Term Loans	4.70	SMERA BBB-/Stable(Assigned)
Cash Credit	2.50	SMERA BBB-/Stable(Assigned)
EPC/FBP/FBN	5.50	SMERA A3 (Assigned)
Letter of Credit	3.50	SMERA A3(Assigned)

SMERA has assigned ratings of **'SMERA BBB-' (read as SMERA triple B minus)** to the Rs.7.20 crore long-term bank facilities and **'SMERA A3' (read as SMERA A three)** to the Rs.9.00 crore short-term bank facilities of Vrijesh Natural Fibre & Fabrics (India) Private Limited (Vrijesh). The outlook is **'Stable'**. The ratings are supported by the company's diversified revenue mix, reputed clientele, strong revenue growth, healthy profit margins, comfortable leverage and efficient working capital management. The ratings are also supported by the company's long track record of operations and experienced management. The ratings derive comfort from the duty drawback and interest subsidy benefits available to the company. However, the ratings are constrained by the company's exposure to intense competition in the textile industry. The ratings are also constrained by the non-integrated nature of the company's operations. The ratings factor in risks related to the debt-funded capex planned by the company.

Vrijesh, incorporated in 1984, is a Mumbai-based company engaged in manufacturing of linen fabrics, scarves and home textiles. Vrijesh caters to several reputed customers, including Tommy Hilfiger, Armani, Zara, J. Crew, Eileen Fisher, Ethan Allen and Calico Corners.

Vrijesh's revenues have grown at a healthy compound annual growth rate (CAGR) of 30 per cent over the last five years. The company has reported healthy operating profit margins (in the range of 8.70 per cent to 10.52 per cent) during the past three years. Moreover, Vrijesh's return on capital employed (RoCE) improved from 24.06 per cent in FY2011–12 (refers to financial year, April 01 to March 31) to 36.30 per cent (provisional) in FY2013–14. The company's healthy financial risk profile is reflected in leverage (total outside liabilities to tangible net worth ratio) of 1.56 times (provisional) as on March 31, 2014 and interest coverage ratio of 7.34 times in FY2013–14. Vrijesh's comfortable liquidity position is evidenced by operating cycle of 46 days (provisional) in FY2013–14 and current ratio of 1.22 times (provisional) as on March 31, 2014.

Vrijesh benefits from its experienced management. Mr. Atul Agarwal, managing director of Vrijesh, has a graduate degree in technology from IIT Delhi, with around 22 years of experience in the textile industry. Vrijesh is entitled to interest subsidy (under TUFS scheme) and duty drawbacks.

Vrijesh faces intense competition from several players in the textile industry. The company does not have an integrated manufacturing facility and is thus highly dependent on import of linen yarn and outsourcing of dyeing and embroidery processes. Vrijesh plans to increase its current capacity of 63 looms by adding 20 looms over the next 18 months at a total capital expenditure of ~Rs.11

crore. The aforementioned capex is likely to be funded through term loans of Rs.8.00 crore and promoters' funds of Rs.3.00 crore.

Key rating sensitivity factors

- Changes in working Capital requirements
- Lower-than-expected Cash accruals
- Changes in Capital structure

Outlook: Stable

SMERA believes Vrijesh will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established operations, healthy operating efficiency and strong financial risk profile. The outlook may be revised to 'Positive' in case the company registers sustained growth in revenues and profitability while maintaining a strong financial risk profile. The outlook may be revised to 'Negative' in case of deteriorationin the company's financial risk profile and liquidity position.

About thecompany

Vrijesh, incorporated in 1984, is a Mumbai-based company promoted by Mr. C. L. Agarwal and Mr. Purshottam Paliwal. The overall operations of the company are currently managed by Mr. Atul Agarwal and Mrs. Shruti Agarwal. Vrijesh is engaged in manufacturing of linen fabrics, scarves and home textiles.

For FY2012–13, Vrijesh reported profit after tax (PAT) of Rs.2.96 crore on net operating income of Rs.64.62 crore, as compared with PAT of Rs.1.44 crore on net operating income of Rs.46.01 crore in the previous financial year. The company's net worth stood at Rs.9.09 crore as on March 31, 2013, as compared with Rs.6.21 crore a year earlier. As per provisional financial statements of FY2013–14, Vrijesh registered PAT of Rs.4.29 crore on operating income of Rs.74.08 crore.

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