

Press Release

07 August, 2017



Providence Textiles (PT)

Rating Reaffirmed

Total Bank Facilities Rated *	Rs. 10.00 Cr
Long Term Rating	SMERA B+/Stable (Reaffirmed)
Short Term Rating	SMERA A4 (Reaffirmed)

Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA B+**' (**read as SMERA B plus**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 10.00 crore bank facility of Providence Textiles. The outlook is '**Stable**'.

Providence Textiles (PT), a Punjab-based firm was promoted by Mr. Sanjay Bansal and Mrs. Kanika Bansal. The firm is engaged in the trading and export of wool, yarn and garments to Europe, USA among others.

Key Rating Drivers

Strengths

Experienced management

Providence Textiles (PT), was established by Mr. Sanjay Bansal and Mrs. Kanika Bansal in 2011. The partners have experience of around two decades in the textile industry. Mr. Bansal oversees the day-to-day operations of the firm.

Comfortable liquidity position

The liquidity is comfortable marked by Gross Current Asset (GCA) days of 101 for FY2017 (Provisional). The debtors days stood at 76 for FY2017 (Provisional) as against the firm's policy of 90 days for exports and 60-90 days for domestic customers. Further, the bank limit has been fully utilised in the three months ending June 2017.

Weaknesses

Moderate financial risk profile

The financial risk profile is moderate marked by high gearing of 3.08 times as on 31 March, 2017 (Provisionals) as compared to 2.10 times as on 31 March, 2016. The increase in gearing is due to a short term loan availed by PT this financial year. The net worth stood at Rs.3.63 crore (including quasi) as on 31 March, 2017 (Provisionals) as compared to Rs.3.42 crore as on 31 March, 2016. The coverage indicators stood comfortable at 1.33 times for FY2017 (Provisionals) as against 1.27 times for FY2016. Further, SMERA believes that the financial risk profile will remain moderate in FY18 with the same level of indicators.

Foreign exchange fluctuation risk

The firm is exposed to foreign exchange fluctuation risk as it generates around 25 per cent revenue from export of woollen yarn to clientele in Italy, Spain and Ireland.

Highly fragmented and competitive industry

PT operates in a highly fragmented industry with limited entry barriers wherein the presence of large number of players in the unorganised sector limits the bargaining power with customers.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Providence Textiles to arrive at the rating.

Outlook: Stable

SMERA believes that PT will maintain a stable outlook over the medium term owing to its experienced management and long-standing relations with customers and suppliers. The outlook may be revised to 'Positive' in case of improvement in the capital structure or shortening of the working capital cycle. Conversely, the outlook may be revised to 'Negative', in case of deterioration in the profitability margins, lower than expected cash accruals or if the firm takes on large debt-funded capital capex adversely impacting its financial risk profile.

About the Rated Entity - Key Financials

For FY2016-17 (Provisionals), the firm reported profit after tax (PAT) of Rs.0.32 crore on operating income of Rs.40.31 crore as compared with PAT of Rs.0.23 crore on operating income of Rs.35.19 crore for FY2015-16. The networth stood (including quasi equity) at Rs.3.63 crore as on 31 March, 2017 (Provisionals) as compared to Rs.3.42 crore as on 31 March, 2016.

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>
- Trading Entities - <https://www.smera.in/criteria-trading.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

Date	Name of Instrument/Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-May 16	Cash Credit^	Long Term	8.00	SMERA B+ / Stable (Assigned)
	Bill Discounting#	Short Term	1.00	SMERA A4 (Assigned)
	Proposed Cash Credit	Long Term	1.00	SMERA B+ / Stable (Assigned)

[^]Sublimit of Rs. 0.50 crore (Packing Credit/ Packing credit in foreign currency)

[#]Sublimit of Rs. 0.60 crore (Foreign Discount Bill Purchase / Foreign Usance Discount Bill Purchase)

#Sublimit of Rs. 2.00 crore (Letter of Credit)

#Sublimit of Rs. 2.00 crore (Buyers Credit)

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit^	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA B+ / Stable (Reaffirmed)
Bill Discounting#	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA B+ / Stable (Reaffirmed)

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ABOUT SMERA

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