Jayachitra Garments: Assigned

Facilities	Amount (Rs. Crore)	Ratings/Outlook
PC/PCFC	8.00	SMERA A4+ (Assigned)
Bills Discounting	5.50	SMERA A4+ (Assigned)
Term loan I	0.06	SMERA BB+/Stable (Assigned)
Term loan II	0.65	SMERA BB+/Stable (Assigned)
Bank Guarantee	0.20	SMERA A4+ (Assigned)
Fund Based Facility (proposed)	1.59	SMERA A4+ (Assigned)

SMERA has assigned ratings of **'SMERA BB+' (read as SMERA double B plus)** and **'SMERA A4+' (read as SMERA A four plus)** to the Rs.16.00 crore bank facilities of Jayachitra Garments (JCG). The outlook is **'Stable'**. The ratings are supported by the firm's experienced management and above-average financial risk profile. The ratings are also strengthened by the comfortable working capital cycle and established relations with its clientele. However, the ratings are constrained by the modest scale of operations and geographic as well as customer concentration risk. The ratings also factor in the volatility in raw material prices and intense market competition.

JCG, a partnership firm established in 1990, is engaged in the manufacture and export of men's wear, women's wear and kid's wear to Canada and United Kingdom. The firm benefits from its experienced management. Mrs. Jayanthi Shanmugam, Promoter, has around 15 years of experience in the textile industry and is well supported by Mr. A. Ramasamy who possesses experience of around two decades.

JCG has modest scale of operations with operating income of Rs.46.96 crore in FY2015-16 (provisional) as against Rs.41.53 crore in FY2014-15. The firm's operating margins in the range of 6 per cent to 9 per cent are healthy. In FY2016, the firm reported operating margins of 7.66 per cent in FY2015-16 (provisional) as against 8.57 per cent in FY2014-15. The net profit margins stood at 3.88 per cent in FY2015-16 as against 3.24 per cent in FY2014-15. JCG's gearing (debt-to-equity) ratio stood at 0.70 times as on March 31, 2016. The Interest coverage ratio stood at 4.67 times and debt service coverage (DSCR) ratio at 2.23 times in FY2015-16. The firm has comfortable working capital cycle of 56 days in FY2015-16 due to advance terms with customers and adequate credit received from suppliers. The average cash credit limit utilisation stood at ~76 per cent in the last six months ending June 2016.

JCG has established relations with larger garment retailers in Canada and United Kingdom over the last two decades. The firm generates around 86 per cent of its revenues from Canada while 14 per cent is from United Kingdom. JCG needs to procure yarn (80 per cent cotton and 20 per cent polyester), one of the main raw materials, thus the profit margin is susceptible to fluctuations in cotton prices.

Rating Sensitivity Factors

- Improvement in revenues while maintaining profitability
- Diversification of customer profile
- Impact of raw material volatility on profitability

Outlook: Stable

SMERA believes that JCG will maintain a stable outlook over the medium term and continue to benefit from its experienced management. The outlook may be revised to 'Positive' if the firm registers sustained growth in scale of operations while improving profit margins. The outlook may be revised to 'Negative' in case the firm fails to achieve the projected scalability amidst intensifying competition in its area of operations. Besides, any deterioration in the financial risk profile on account of steep decline in revenues, profitability and stretched working capital cycle may also entail a 'Negative' outlook.

Criteria applied to arrive at the ratings:

- Manufacturing Entities

About the Firm

JCG, a partnership firm established in 1990, is engaged in the manufacturing and export of men's wear, women's wear and kid's wear to retailers located in Canada and United Kingdom.

For FY2015-16 (provisional), JCG reported profit after tax (PAT) of Rs.1.59 crore on operating income of Rs.46.96 crore as against PAT of Rs.1.35 crore on operating income of Rs.41.53 crore in FY2014-15. The firm's tangible net worth stood at Rs.9.58 crore in FY2015-16 as against Rs.8.86 crore in the previous year.

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ABOUT SMERA

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