

Hero Fashion: Assigned

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Packing Credit*	15.00	SMERA BB/Stable (Assigned)
Foreign Bills Discounting	1.50	SMERA A4+ (Assigned)
Letter of Credit	0.50	SMERA A4+ (Assigned)

**The long term rating assigned as per client request*

SMERA has assigned long term rating of **'SMERA BB' (read as SMERA double B)** on the Rs.15.00 crore long term bank facility and short term rating of **'SMERA A4+' (read as SMERA A four plus)** on the Rs.2.00 crore bank facilities of Hero Fashion. The outlook is **'Stable'**. The ratings are supported by the experienced management and comfortable financial risk profile. However, the ratings are constrained by the modest scale of operations, susceptibility of profit margins to volatility in raw material prices and stabilisation risk associated with the on-going solar project.

Hero Fashion, incorporated in 1989 is engaged in the manufacture and export of readymade garments. The firm was promoted by Mr S. Sundaramurthy who possesses extensive experience in garment manufacturing. The firm has comfortable gearing of 0.59 times (provisional) as on March 31, 2016 as against 0.26 times as on March 31, 2015. The interest coverage ratio (ICR) stood at 10.12 times (provisional) in FY2015-16 as against 8.32 times in FY2014-15.

The scale of operations has been modest with operating income of Rs.33.71 crore (provisional) in FY2015-16 as compared to Rs.36.56 crore in the previous year. The profitability is susceptible to volatility in cotton prices. The firm has set up a 2MW solar power plant in Tamil Nadu at a total project cost of Rs.11.00 crore, funded through loan of Rs.6.57 crore and long term buyer's credit of Rs.3.20 crore with the balance through internal accruals. The firm is yet to finalise the Power Purchasing Agreement. The stabilisation of the on-going solar project and augmentation of cash flows are the key rating sensitivities.

Rating Sensitivity Factors

- Timely completion of the on-going project
- Scaling up operations while improving profitability

Outlook – Stable

SMERA believes that Hero Fashion will maintain a stable outlook in the medium term owing to the promoters' extensive experience, average financial risk profile and reputed clientele. The outlook may be revised to 'Positive' if the firm registers higher-than-expected growth in revenues and net cash accruals while maintaining better profit margins. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues and profitability or deterioration in the financial risk profile.

Criteria applied to arrive at the ratings:

- Manufacturing entities

About the Firm

Hero Fashion, established by Mr. S. Sundramurthy in 1989 at Tirupur, Tamil Nadu, manufactures and exports readymade garments for kids and adults. The firm caters to reputed customers including Migros, Coop (Switzerland) and Living Crafts (Germany) and has production capacity of two lakh units per month.

For FY2015-16 (provisional), the firm reported net profit after tax (PAT) of Rs.6.20 crore on operating income of Rs.33.71 crore, as compared with PAT of Rs.7.94 crore on operating income of Rs.36.56 crore in FY2014-15. The tangible net worth of the firm stood at Rs.36.90 crore as on March 31, 2016 as against Rs.33.43 crore in the previous year.

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ABOUT SMERA

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