

Navagiri Apparel: Assigned

Facilities	Amount (Rs Crore)	Ratings/Outlook
Term Loan	1.50	SMERA BB/Stable (Assigned)
Packing Credit	5.00*	SMERA A4+ (Assigned)
Foreign Documentary Bill Purchase	5.00**	SMERA A4+ (Assigned)

*Fully interchangeable with Pre-Shipment Credit in Foreign Currency

**Fully interchangeable with Foreign Usance Discount Bill Purchase in INR or Foreign Currency

SMERA has assigned long term rating of '**SMERA BB**' (read as **SMERA double B**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) to the above mentioned bank facilities of Navagiri Apparel (Navagiri). The outlook is '**Stable**'. The ratings derive strength from the experienced management, comfortable financial risk profile and comfortable working capital cycle. However, the ratings are constrained by the customer concentration risk, exposure to forex fluctuation risk and inherent risk of capital withdrawal due to the partnership constitution of the firm.

Navagiri, established in 2012, is engaged in the manufacture of hosiery garments for women and children. The firm benefits from its experienced management. Mr. A. R. Shanmugam, Partner possesses over 15 years of experience in the textile industry. The firm has a comfortable financial risk profile marked by gearing of around 0.37 times as on March 31, 2015. The Interest coverage ratio (ICR) stands comfortable at 4.92 times in FY2015. While the firm has taken a term loan of Rs.1.12 crore for purchase of knitting machinery in FY2016, the same is expected to have negligible impact on the financial risk profile.

Also, the firm operates on comfortable working capital cycle with gross current assets (GCA) of 49 days in FY2014-15.

However, the ratings are constrained by the exposure to customer concentration risk since around ~62 per cent revenue is generated from a single customer i.e. Bioworld Merchandising (USA). Further, the firm is also exposed to foreign exchange fluctuation risk with 100 per cent exports to USA and Canada.

The partnership constitution of the firm is yet another factor that renders it vulnerable to withdrawal of capital and same has been observed in the past.

Rating Sensitivity Factors

- Improvement in scale of operations and profitability
- Customer diversification
- Withdrawal of capital

Outlook-Stable

SMERA believes that Navagiri will maintain a stable outlook and benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' if the firm registers improvement in its scale of operations while achieving healthy profit margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile.

Criteria applied to arrive at the ratings:

- Manufacturing Entities

About the Firm

Navagiri Apparel, (the erstwhile Hardikaa Exports), was established in 2012 by Mr. A.R. Shanmugam and Ms. S. Kalarani. The firm manufactures garments for women and children.

For FY2014–15, the firm reported profit after tax (PAT) of Rs.1.59 crore on operating income of Rs.57.55 crore, as compared with net profit of Rs.2.17 crore on operating income of Rs.46.91 crore in FY2015–14.

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ABOUT SMERA

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