

Malar Textiles: Assigned

Facilities	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	4.25	SMERA B/Stable (Assigned)
Term Loan	0.66	SMERA B/Stable (Assigned)
Proposed Term loan	3.06	SMERA B/Stable (Assigned)
Proposed Fund and Non-Fund Based Facilities	0.03	SMERA B/Stable/SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA B**' (read as **SMERA B**) and '**SMERA A4**' (read as **SMERA A four**) to the above mentioned bank facilities of Malar Textiles. The outlook is '**Stable**'.

The ratings derive comfort from the long operational track record and extensive experience of the partners in the textile sector.

However, the ratings are constrained by the modest scale of operations, moderate financial risk profile and stretched liquidity position. The ratings also factor in the working capital intensive operations and susceptibility of profit margins to fluctuations in prices of raw material. Further, the ratings also note the risks associated with the debt funded capex and its impact on the financial and business risk profile of the firm.

Malar Textile, incorporated in 1997, is a Coimbatore-based partnership firm that manufactures grey fabric. The partners, Mr. D Rajkumar and Mr. D Vishwamathamurthy, possess two decades of experience in the textile sector.

However, the scale of operations are modest with operating income of Rs.20.69 crore in FY2016 and Rs.20.49 crore in FY2015. The firm registered revenues of around Rs.10.00 crore as on 31 September, 2016. Malar Textile has a moderate financial risk profile marked by high gearing of 2.27 times as on March 31, 2016 and interest coverage ratio of 1.34 times in FY2016. The net worth stands at Rs.2.54 crore as on 31 March, 2016. The net cash accruals are at Rs.0.22 crore in FY2016.

The firm plans to set up 16 additional looms at Rs.4.00 crore to be funded through a term loan of Rs.3.06 crore and partner's capital of Rs.0.94 crore. Notwithstanding the benefits of the expansion, the debt funded capex is likely to have an adverse impact on the financial risk profile of the firm.

The operations are working capital intensive, as reflected by gross current assets days of 137 days mainly due to high inventory days of 120 days as on 31 March 2016. The average cash credit utilisation in the last six months ended September 2016 was 100 percent. The operating margins of Malar Textile are susceptible to volatility in raw material prices of yarn.

Rating Sensitivity Factors

- Scaling up operations while improving profitability margins
- Stabilisation of the ongoing debt funded capex
- Improvement in the financial risk profile.
- Augmentation of adequate net cash accruals to meet debt obligations

Outlook-Stable

SMERA believes that the outlook on Malar Textile will remain 'Stable' over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case of further improvement in the firm's scale of operations while maintaining profitability or generation of sufficient cash accruals. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its financial profile.

Criteria applied to arrive at the ratings:

- Manufacturing Entities

About the Firm

The Coimbatore-based Malar Textile, established as a partnership firm in 1997, manufactures grey fabrics. The firm has 28 weaving looms and has taken 500 looms on rent for job work. The installed capacity is 1.70 lakh meter per week.

For FY2015-16, Malar Textile reported net profit of Rs.0.03 crore on operating income of Rs.20.69 crore as against net income of Rs.0.02 crore on operating income of Rs.20.49 crore in the previous year.

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ABOUT SMERA

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