SMERA RATINGS LIMITED

Motherland Garments Private Limited: Assigned

Facilities	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	2.50	SMERA B+/Stable (Assigned)
Term Loan	4.20	SMERA B+/Stable (Assigned)
Proposed Long Term Facilities	1.30	SMERA B+/Stable (Assigned)

SMERA has assigned long term rating of **'SMERA B+' (read as SMERA B plus)** on the above mentioned bank facilities of Motherland Garments Private Limited. The outlook is **'Stable'**.

The rating is constrained by the modest scale of operations, stretched liquidity and working capital intensive business. However, the rating is supported by the experienced management and reputed clientele.

MGPL, incorporated in 2005, is engaged in the processing/finishing of garments. The company was promoted by Mr AJ Pandian, Mr G Ramesh Kanna and Mr SA Selvamani. The company has modest scale of operations with revenue of Rs.10.73 crore in FY2016. The operations are working capital intensive marked by stretched debtor days of 125 in FY2016. The stretched liquidity position of the company is marked by almost full utilisation of cash credit limit. This reflects in the working capital requirements which are likely to remain stretched in the medium term.

However, the rating draws comfort from the promoters' extensive experience in the same line of business and the company's long standing relations with Aditya Birla Group (Pantaloons), Arvind Lifestyle Brands Limited and Shahi Exports Private Limited.

MGPL plans to expand its garment processing operations in Chittoor (Andhra Pradesh) at a total cost of around Rs.4.00 crore to be funded through term loan of Rs.3 crore and the balance through owner's contribution. The operations are expected to start by FY2019. The company expects to process 40,000 additional units of garments per day at the facility.

Rating Sensitivity Factors

- Sustainable and substantial growth in revenues
- Timely recovery of debtors
- Extent of capex and its funding mix

Outlook-Stable

SMERA believes that MGPL will maintain a 'Stable' outlook in the medium term and benefit from its experienced management. The outlook may be revised to 'Positive' if the scale of operations increases substantially while maintaining operating profitability and improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability amidst intensifying competition in its area of operations or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded capex or working capital requirements.

Criteria applied to arrive at the ratings:

- Manufacturing Entities

About the Company

MGPL was established in 2005, by Mr AJ Pandian, Mr G Ramesh Kanna and Mr SA Selvamani. The company is engaged in the processing/finishing of garments. The company has four facilities, two in Bangalore and the other two at Chennai. The company's current processing capacity is 60,000 units of garments per day.

In FY2016, the company reported profit after tax (PAT) of Rs.0.46 crore on operating income of Rs.10.43 crore against PAT of Rs.0.34 crore on operating income of Rs.8.77 crore in the previous year.

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ABOUT SMERA

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