

April 30, 2013

Proposed Facility	Amount (Rs. Crore)	Rating
Cash Credit	8.00	SMERA BB-/ Stable/ Assigned

SMERA has assigned a rating of '**SMERA BB-**' (read as SMERA Double B minus) to Rs. 8.00 crores proposed long term facility. The outlook is 'Stable'. The rating of Jainam Silk Mills (JSM) is primarily constrained by relatively small scale of operations and average financial risk profile marked by high gearing and low coverage indicators. The rating also factors in the working capital intensive nature of operations, fragmented nature of the textile processing industry and volatility in raw material prices. The rating, however, derives support from the benefits JSM derives due to promoters' long standing experience in the textile industry and the trust built with its customers as well as its suppliers.

JSM commenced operations in 1995 and is engaged in the manufacturing and trading of finished fabric which is primarily used for shirting. JSM markets its fabric under the brand name "Devine Touch" to local retailers and manufacturers. JSM also sells its fabrics to reputed corporates such as Siyarams, Raymond etc. on a neutral label. While JSM undertakes only designing, fabric inspection, packing and dispatching in-house, its other processes are outsourced; JSM has rented out all its 89 power looms to firms owned by its relatives to undertake its entire weaving on a job work basis. With an operating income of Rs. 36.45 crores, the company's scale of operations, in the highly fragmented domestic weaving industry, is considered to be relatively small. The weaving industry is characterized by intense competition with minimal product differentiation, thus exposing JSM to intense competition from numerous fabric manufactures in Bhiwandi, which is known as a textile cluster.

JSM's operating income grew at 4 % CAGR between FY 2008 to FY 2012; however, the operating income declined marginally to 3% in FY 2012 over FY 2011.

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Further, JSM has to stock inventory with varied quality and range to cater to the expected demand in the market, besides manufacturing on the basis of the order book, due to which its inventory holding stood at 125 days, which has led to higher working capital requirements of 174 days in FY 2012. Thus cash credit limit utilization of the firm is high i.e. average 90% for six months period ending January 2013. JSM is also exposed to volatility in raw material prices.

The company's collection and payable days are stretched and are considered high during the period under study. Collection days have increased during the period under study from 116 days in FY 2009 to 187 days in FY 2012 while payable days stood at 138 in FY 2012.

Over a period of past 5 years, JSM has earned net margins in the range of 3.5% to 4.5%; this can be attributed to its outsourcing of 90% of its manufacturing processes to group companies and third parties. Capital structure of the firm remained leveraged where debt equity stands at 2.33 times as on 31/Mar/2012; this was mainly on account of interest bearing unsecured loans taken from friends, relatives and others. Coverage ratios are moderate, where interest coverage ratio stands at 1.62 times for FY 2012.

Mr. Jayantilal L. Gada, Chairman of JSM, possess around 40 years of experience in the textile industry. JSM is a family owned business with expertise in fabric manufacturing. Other partners such as Mr. Ashwin J. Gada and Mr. Jiten S. Gogri are also well qualified and have extensive experience in textile industry. Promoters' experience has helped the firm in maintaining long standing relationship with its customers and suppliers.

Outlook: Stable

JSM has 'Stable' outlook. SMERA believes that JSM will continue to benefit from the experience of its promoters and established relationships with its customers as well as suppliers. However, the company's ability to enhance the scale of operations along with the improvement in the capital structure and effective working capital management are the key rating sensitivities.

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About Jainam Silk Mills

Jainam Silk Mills (JSM) was established in the year 1995 as a partnership firm by Mr. Jiten S. Gogri and Mr. Vinod V. Haria. Subsequently, in the year 1998, Mr. Vinod V. Haria retired from the partnership and Mr. Ashwin J. Gada, Mr. Tarun J. Gada & Mr. Jayantilal L. Gada were appointed as partners in the firm. Later, in the year 2010, Mr. Tarun J. Gada retired from the partnership.

At present, management of JSM is vested in the hands of Mr. Jiten S. Gogri, Mr. Ashwin J. Gada, & Mr. Jayantilal L. Gada.

For FY 2012, JSM reported a net profit of Rs. 1.39 crores on a total income of Rs. 36.45 crores as against a net profit of Rs. 1.49 crores on a total income of Rs. 37.64 crores for FY 2011.

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