



SMERA RATINGS LIMITED

Jainam Silk Mills (JSM)

**Rating
Rationale****June 11, 2014**

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

SMERA has reaffirmed the rating of '**SMERA BB-**' (read as **SMERA double B minus**) assigned to the Rs.8.00 crore long-term bank facility of Jainam Silk Mills (JSM). The outlook is '**Stable**'. The rating remains constrained by the firm's moderate scale of operations, average financial risk profile and working capital-intensive operations. The rating is also constrained by the susceptibility of the firm's profit margins to raw material price volatility and intense competition. However, the rating is supported by the firm's experienced management and established relations with customers and suppliers.

Update

JSM reported revenue of Rs.45.05 crore in FY2012-13 (refers to financial year, April 01 to March 31), as compared with revenue of Rs.36.45 crore in FY2011-12, a growth of 23.42 per cent. Further, the firm registered revenue of Rs.64.57 crore (provisional) in FY2013-14, a growth of 43.46 per cent over the previous year on account of increase in sales realisation. The firm's gearing (debt-capital ratio) remains high at 2.52 times (provisional) as on March 31, 2014. JSM maintained moderate coverage indicators, as reflected in interest coverage ratio (ICR) of 1.64 times and cash debt service coverage ratio (DSCR) of 1.11 times in FY2013-14.

JSM's profit margins remain susceptible to volatility in raw material (cotton) prices. The firm's operating profit margin declined from 10.12 per cent in FY2012-13 to 9.53 per cent (provisional) in FY2013-14. JSM's working capital cycle remains stretched at 185 days in FY2013-14 on account of extended collection period (158 days) and high level of inventory (131 days). The firm's cash credit utilisation level is high at 91.1 per cent during October 2013 to May 2014.

Outlook: Stable

SMERA believes JSM will continue to benefit over the medium term from its experienced management and established relations with customers and suppliers. The outlook may be revised to 'Positive' in case of improvement in the firm's capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case the firm fails to achieve the projected scalability in revenues and profitability, or in case of deterioration in the firm's financial risk profile and liquidity position on account of higher-than-expected debt-funded working capital requirements.

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About the firm

JSM, established in 1995, is a Mumbai-based partnership firm engaged in manufacturing and trading of shirting fabric. The overall operations of the firm are currently managed by Mr. Jiten S. Gogri, Mr. Ashwin J. Gada and Mr. Jayantilal L. Gada.

JSM markets its products under the brand name 'Devine Touch'. The firm caters to local retailers and manufacturers. JSM only undertakes designing, inspection and packing of fabric, while other processes are outsourced.

For FY2012–13, JSM reported profit after tax (PAT) of Rs.1.62 crore on operating income of Rs.45.05 crore, as compared with PAT of Rs.1.39 crore on operating income of Rs.36.45 crore for FY2011–12. JSM's net worth stood at Rs.8.43 crore as on March 31, 2013, as compared with Rs.6.94 crore a year earlier.

For FY2013–14 (as per provisional financial statements), JSM registered PAT of Rs.2.41 crore on operating income of Rs.64.57 crore. The firm's net worth stood at Rs.11.07 crore (provisional) as on March 31, 2014.

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