

Press Release

Varsha Fashion LLP (VF)

April 24, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 18.50 Cr.
Long Term Rating	SMERA BB+/Outlook: Stable

*Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB+**' (**read as SMERA BB plus**) on the Rs.18.50 crore bank facilities of Varsha Fashion LLP (VF). The outlook is '**Stable**'.

Varsha Fashion LLP (VF), established in 1995, is an Ahmedabad-based firm, engaged in the manufacture of designer sarees, dress materials and lehengas.

List of key rating drivers and their detailed description

Strengths

Experienced management

The firm was promoted by Mr. Navinchandra Kapadia who possesses experience of over five decades in the textile industry. Besides, the promoter is also joined by the second and third generation entrepreneurs namely Mr. Dhirendra Kumar Kapadia, Mr. Jigneshkumar Kapadia and Mr. Parshawa Kapadia.

SMERA believes that the long standing experience of the management in the textile industry has helped the firm to survive various business cycles and establish healthy relations with customers and suppliers.

Comfortable financial risk profile

The networth stood healthy at Rs.26.26 cr as on March 31, 2016 as against Rs.20.43 cr as on March 31, 2015 owing to infusion of funds. The management has maintained gearing near unity during the period under study owing to healthy infusion of funds as against the debt taken for setting up a manufacturing unit. The gearing stood low at 0.88 times as on March 31, 2016.

The total debt of Rs.23.06 cr outstanding as on March 31, 2016 includes term loan of Rs.6.84 cr, short term borrowing of Rs.10.52 cr and unsecured loans from promoters and relatives of Rs.5.70 cr. The interest coverage ratio stands at healthy levels of 2.54 times in FY2016. The DSCR stands moderate at 1.39 times in FY2016.

SMERA believes that the financial risk profile of the firm is likely to remain comfortable on the back of healthy networth and steady cash accruals.

Improved profitability

The operating margins improved to 13.63 per cent in FY2016 from 7.60 per cent in FY2014. The firm commenced in-house fabric manufacturing from mid FY2015 which helped cut down costs incurred for outsourcing the same.

While the net profits have declined to Rs.0.19 cr in FY2016 as against Rs.1.12 cr in FY2014 mainly on account of high depreciation and interest burden. The net cash accrual has increased to Rs.2.09 crore in FY2016 from Rs.1.61 crore in FY2014.

SMERA believes that the ability of the firm to efficiently utilise its production capacity will remain a key rating sensitivity.

Weaknesses

Modest scale of operations in a highly fragmented and competitive textile industry

VF has modest scale of operations with revenue of Rs.28.91 cr in FY2016, a significant decline from Rs.41.76 cr in FY2015. The management has attributed the decline in revenue to the increased focus on the fabric manufacturing project which was being set up since 2015. However in FY2017 the revenues have revived to ~Rs.53.96 cr from April, 2016 to March, 2017(provisional).

VF faces intense market competition in the textile industry marked by the presence of few large players and many small players in the unorganised sector which limits its pricing flexibility. Further, the company's profitability and revenue growth will be dependent on the ability to adapt to changing taste and preferences of the customers.

Working capital intensive operations

VF's operations are working capital intensive reflected in its high gross current asset of 516 days in FY2016 as against 343 days in FY2015. This is on account of inventory pile up to 238 days in FY2016 (as against 156 days in FY2015) due to lower than expected sales. The inventory levels are required to be maintained at high levels due to wide variety of garments. The debtors too stood high at 141 days in FY2016 (as against 137 days in FY2015).

However, the firm has been able to maintain its liquidity with steady cash accruals and infusion of promoter funds which has led to minimal cash credit utilisation during the period September, 2016 to March, 2017.

SMERA believes that efficient working capital management will be crucial to maintaining a steady credit profile.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the firm to arrive at the ratings.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that VF will maintain a stable outlook and benefit over the medium term from the extensive experience of its management and established relations with customers. The outlook may be revised to 'Positive' in case of significant and sustained improvement in revenue and margins, leading to higher cash accruals. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue or profitability, leading to lower-than-expected cash accruals, or weakening of the financial

risk profile. This could be due to stretch in working capital cycle or substantial debt-funded capital expenditure.

About the Rated Entity

VF was incorporated in 1995 as a private limited company by the name 'Varsha Fashion Private Limited' having Mr. Navinchandra Kapadia, Mr. Dhirendra Kumar Kapadia and Mr. Jigneshkumar Kapadia as the promoters of the company. Later, the constitution was changed to Limited Liability Partnership in 2013. The firm is engaged in the manufacture of designer sarees, dress materials and lehengas. The day to day operations are led by Mr. Navinchandra Kapadia, Mr. Dhirendra Kumar Kapadia, Mr. Jigneshkumar Kapadia and Mr. Parshawa Kapadia. The manufacturing unit is located at Ahmedabad.

For FY2015-16, VF reported net profit of Rs.0.19 cr on operating income of Rs.28.91 cr, as compared to net profit of Rs.1.10 cr on operating income of Rs.41.76 cr in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): CRISIL in the press release dated October 25, 2016 has suspended the rating of Varsha Fashion LLP and has stated the following "The suspension of ratings is on account of non-cooperation by VF with CRISIL's efforts to undertake a review of the ratings outstanding."

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	11.53	SMERA BB+/Stable (Assigned)	-	-	-	-	-	-
Term Loan	LT	6.97	SMERA BB+/Stable (Assigned)	-	-	-	-	-	-

***Annexure - Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
Cash Credit	NA	NA	NA	11.53	SMERA BB+/Stable (Assigned)
Term Loan	NA	NA	July 2020	6.97	SMERA BB+/Stable (Assigned)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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