

Press Release

Raj Fabrics

June 20, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 13.88 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 13.88 crore bank facilities of Raj Fabrics. The outlook is '**Stable**'.

Raj Fabrics (RF) is engaged in the manufacture of grey clothing and yarn dyed fabrics at Tirupur, Tamil Nadu. The firm has an installed capacity of 1.75 lakh meters per month.

Key Rating Drivers

Strengths

- **Long operational track record and experienced management**

RF is a partnership firm established in 1992 by Mr. N. Ponnuraj who possesses experience of over two decades in the textile industry.

- **Healthy revenue growth**

The revenues rose to Rs. 24.65 crore in FY2016 from Rs. 12.92 crore in FY2015 with increased production. Further, in FY2017 the firm booked revenue of Rs.27.30 crore. The revenues have grown at a CAGR of 95 per cent from FY2014 to FY2016.

- **Moderate working capital cycle**

RF has a moderate working capital cycle marked by GCA days of 90 in FY2016 as against 121 days in FY2015. The improvement in GCA days is due to decrease in inventory days to 40 days from 60 days.

Weaknesses

- **Moderate financial risk profile**

RF's financial risk profile is moderate marked by net worth of Rs. 4.43 crore as on 31 March, 2016. The gearing stood at 2.10 times as on 31 March, 2016 as compared to 2.53 times as on 31 March, 2015. The interest coverage ratio showed an increasing trend to 2.54 times in FY2016 from 1.52 in FY2015.

- **Competition and fragmented nature of business**

RF is exposed to intense competition from organised and unorganised players.

- **Volatility in prices of raw materials**

The operating margins are susceptible to volatility in the prices of raw material - cotton. The prices of cotton are fixed by the government. Besides, the firm is also exposed to agro climatic risks.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm.

Outlook: Stable

SMERA believes that RF will maintain a stable outlook in the medium term owing to its experienced management and established operational track record. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues and net cash accruals while maintaining better profit margins and improvement in its working capital management. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues and profitability or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

For FY2015-16, the firm registered profit after tax (PAT) of Rs.1.25 crore on operating income of Rs.24.65 crore as against net profit of Rs.0.11 crore on operating income of Rs.12.92 crore in the previous year. The net worth stood at Rs.4.43 crore as on 31 March, 2016 compared to Rs.3.04 crore as on 31 March, 2015.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***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	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4+
Term loans	Not Applicable	Not Applicable	Not Applicable	4.21	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.37	SMERA BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.30	SMERA A4+

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