

Press Release

Visitor Garments

July 11, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 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 minus**) on the Rs. 10.00 crore bank facilities of Visitor Garments. The outlook is '**Stable**'.

Visitor Garments (VG) is a Tirupur-based partnership firm established by Mr. M. Muthukrishnan. The firm manufactures and exports hosiery garments - shirts and pants. The firm exports garments to Germany, Spain, Ireland, Poland and U.K. It has installed capacity of 1200000 pieces and the current capacity utilisation is 90 per cent approx.

Key Rating Drivers

Strengths

- **Established track record and experienced management**

VG, established in 1988 by Mr. M. Muthukrishnan is a Tirupur-based partnership firm. The partners, Mr. M. Muthukrishnan, Mr. R. Arunachalam, Mr. N.C.R.N.S. Visalakshi among others possess experience of around four decades in the textile industry.

- **Moderate financial risk profile**

The firm has moderate financial risk profile marked by low gearing (debt to equity ratio) of 0.45 times as on 31 March, 2016 as against 0.54 times as on 31 March, 2015. The interest coverage ratio stood at 3.73 times in FY2015-16 as against 4.99 times in FY2014-15. The TOL/TNW stood at 1.06 times in FY2015-16 as against 1.01 times in FY2014-15. The firm reported networth of Rs.11.28 crore in FY2015-16 compared to Rs. 11.18 crore in the previous year. The net cash accruals stood at Rs.1.65 crore in FY2015-16 compared to Rs. 2.71 crore in FY2014-15.

- **Proximity to raw materials**

The raw materials are cotton yarn, fabric and garments. The manufacturing unit is located at Tirupur, a textile hub enabling easy access to raw material.

Weaknesses

- **Modest scale of operations**

The firm has moderate scale of operations with operating income of Rs. 39.23 crore in FY2015-16 as against Rs. 46.97 crore in FY2014-15, registering a decline of 16 per cent in FY2016 due to reduced order flow and fluctuations in forex rates. As indicated by the management, the firm registered revenue of Rs. 40.00 crore in FY2016-17.

- **Working capital intensive operations**

VG has working capital intensive operations marked by GCA (gross current assets) of 143 days for FY2016 as against 131 days for FY2015. The high GCA days are due to the receivables and other loans and advances. However, the working capital cycle was comfortable at 10 days as on 31 March, 2016 as against 35 days in 31 March, 2015.

• **Susceptibility of profit margins to volatility in raw material prices**

VG reported fall in operating margin of 4.09 per cent in FY2015-16 from 5.42 per cent in FY2014-15. This was on account of volatility in raw material prices and fluctuations in exchange rate as the firm caters largely to an overseas clientele.

• **Highly fragmented industry**

VG operates in a highly competitive and fragmented textile industry with limited entry barriers and presence of large number of players limiting the bargaining power with customers. The firm faces intense competition from various players in India and overseas which is likely to have an impact on its operating performance and profitability.

• **Partnership constitution**

VG is a partnership firm. Hence, the constitution of the firm makes it susceptible to capital withdrawal at will.

Analytical Approach

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

Outlook: Stable

SMERA believes that VG will maintain a stable outlook over the medium term and benefit from its experienced management. The outlook may be revised to 'Positive' if the firm registers substantial growth in revenues and profitability while maintaining debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile or working capital management.

About the Rated Entity - Key Financials

For FY2015-16, VG has reported profit after tax (PAT) of Rs. 1.17 crore on operating income of Rs. 39.23 crore as against PAT of Rs. 2.35 crore on operating income of Rs.46.97 crore in the previous year. The net worth stood at Rs. 11.28 crore as on 31 March, 2016 as against Rs. 11.18 crore in the previous year.

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

India Ratings, vide release dated March 30, 2017 has suspended the ratings of VG on account of lack of adequate information required for monitoring of ratings.

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
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FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BB- / Stable
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ABOUT SMERA

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