

Press Release

G M S Processors Private Limited (GPPL)

21 November, 2017



Rating Reaffirmed and Assigned

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|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs. 24.95 Cr. (Enhanced from Rs. 23.00 Cr.) |
| Long Term Rating | SMERA BB- /Stable (Reaffirmed) |
| Short Term Rating | SMERA A4+ (Reaffirmed) |

*Refer annexure for details

SMERA has reaffirmed the long term rating of '**SMERA BB-**' (read as **SMERA Double B minus**) and short term rating of '**SMERA A4+**' (read as **SMERA A Four plus**) on the Rs. 23.00 crore bank facility of G M S Processors Private Limited (GPPL). Further, SMERA has assigned long term rating of '**SMERA BB-**' (read as **SMERA Double B minus**) on the Rs.1.95 crore bank facility. The outlook is '**Stable**'.

The Tamil Nadu-based GMS Processors Private Limited was incorporated in 2002. The company, led by Mr. Govind Karnani, (Managing Director) is engaged in the dyeing of hosiery fabrics and selling of the same. The installed capacity stands at 12 tons per day.

Key rating drivers

Strengths

Experienced management

GPPL was incorporated in 2002 by Mr. Govind Karnani, Mr. Srirangasamy Selvakumar, and Mr. Sharan Karnani. The promoters have experience of almost three decades in the textile industry.

Healthy financial risk profile

GPPL has healthy financial risk profile marked by tangible net worth of Rs. 14.99 crore as on 31 March, 2017 as against Rs. 13.09 as on 31 March, 2016. The gearing stood at 0.45 times as on 31st March, 2017 as against 0.53 times as on 31st March, 2016. The debt of Rs. 6.76 crore mainly consists of term loans of Rs. 2.53 crore and working capital borrowings of Rs. 2.20 crore as on 31 March, 2017. The Interest Coverage Ratio (ICR) stood at 5.72 times in FY2017 as against 6.92 times in FY2016. The Debt Service Coverage Ratio (DSCR) stood at 1.77 times for FY2017 as against 2.04 times in FY2016. The Total outside Liabilities/Tangible net worth(TOL/ TNW) stood at 1.05 times as on 31st March, 2017 as against 1.23 times as on 31st March, 2016. The Net cash accruals/total debt (NCA/TD) stood at 0.57 times as on 31 March, 2017 as against 0.65 times as on 31 March, 2016. SMERA expects that the gearing will deteriorate marginally in the medium term on account of additional debt funded capex (new water treatment plant). The plant is expected to reduce manufacturing costs.

Reputed clientele

GPPL has developed long term relations with its customers. The reputed client base includes Page Industries Limited, Loocust Incorp Apparel Export Pvt Ltd and Shahi Export Private Limited.

Weaknesses

Moderate scale of operations

Despite being in operations since 1989, GPPL has moderate scale of operations marked by revenue of Rs. 34.93 crore in FY2017 and Rs. 32.68 in FY2016. The operating margins declined to 17.29 percent in FY2017 from 20.33 per cent in FY2016. SMERA expects the margins to improve in the medium term on account of reduction in manufacturing cost due to the new water treatment plant expected to be operational in FY2018.

Working capital intensive operations

The operations of GPPL are working capital intensive marked by high GCA of 132 days in FY2017 compared to 129 days in FY2016. The GCA days are mainly dominated by debtor days of 97 days in FY2017 compared to 87 days in FY2016. The average cash credit utilisation for the period August 2017 to October 2017 was ~90 percent. SMERA believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Ongoing debt funded capex

GPPL has commenced construction of the water treatment plant at a total cost of Rs. 17.56 crore to be funded through term loan of Rs. 14.05 crore and the rest from promoters. The construction is expected to get completed by March 2018. Notwithstanding the benefits of the debt funded capex, timely completion and stabilisation will remain key ratingsensitivities.

Competitive and fragmented industry

GPPL operates in a highly fragmented industry with limited entry barriers wherein the presence of large number of players in the unorganised sector limits the bargaining power with customers.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of G M S Processors Private Limited (GPPL) to arrive at the rating.

Outlook – Stable

SMERA believes that GPPL will continue to maintain a stable outlook over the medium term owing to the extensive experience of its promoter. The outlook may be revised to 'Positive' in case of substantial increase in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue and profitability or stretch in working capital cycle that weakens the financial risk profile, particularly liquidity.

About the Rated Entity – Key Financials

In FY2016-17, the company reported profit after tax (PAT) of Rs. 1.90 crore on operating

income of Rs. 34.93 crore as against net profit of Rs. 2.70 crore on operating income of Rs. 32.68 crore in the previous year. The tangible net worth stood at Rs.14.99 crore as on 31 March, 2017 as against Rs. 13.09 crore a year earlier.

Any other information:

Not Applicable

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>

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

None

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Crore) | Ratings/Outlook |
|-------------|---------------------------------|-----------|--------------------|--------------------------------|
| 26 July, 17 | Cash Credit | Long Term | 2.00 | SMERA BB-/ Stable (Reaffirmed) |
| | Term Loan | Long Term | 0.60 | SMERA BB-/ Stable (Reaffirmed) |
| | Term Loan | Long Term | 2.70 | SMERA BB-/ Stable (Reaffirmed) |
| | Term Loan | Long Term | 0.27 | SMERA BB-/ Stable (Reaffirmed) |
| | Term Loan | Long Term | 1.31 | SMERA BB-/ Stable (Reaffirmed) |
| | Term Loan | Long Term | 0.14 | SMERA BB-/ Stable (Reaffirmed) |
| | Term Loan | Long Term | 1.46 | SMERA BB-/ Stable (Reaffirmed) |

| | | | | |
|--|------------------------|------------|-------|--------------------------------|
| | Bank Guarantee | Short Term | 0.14 | SMERA A4+ (Reaffirmed) |
| | Proposed Term Loan | Long Term | 14.05 | SMERA BB-/ Stable (Reaffirmed) |
| | Proposed Bank Facility | Long Term | 0.33 | SMERA BB-/ Stable (Reaffirmed) |

Annexure - Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------|--------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 2.00 | SMERA BB-/ Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 0.60 | SMERA BB-/ Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 2.70 | SMERA BB-/ Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 0.27 | SMERA BB-/ Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 1.31 | SMERA BB-/ Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 0.14 | SMERA BB-/ Stable (Reaffirmed) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 1.46 | SMERA BB-/ Stable (Reaffirmed) |
| Bank guarantee | Not Applicable | Not Applicable | Not Applicable | 0.14 | SMERA A4+ (Reaffirmed) |
| Proposed Term Loan | Not Applicable | Not Applicable | Not Applicable | 14.05 | SMERA BB-/ Stable (Reaffirmed) |
| Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 1.95 | SMERA BB-/ Stable (Assigned) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 0.33 | SMERA BB-/ Stable (Reaffirmed) |

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ABOUT SMERA

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