

Press Release

Shree Rayon Private Limited (SRPL)

February 28, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 16.86 Cr.
Long Term Rating	SMERA BBB-/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB-**' (read as SMERA triple B minus) on the Rs. 16.86 crore bank facilities of Shree Rayon Private Limited. The outlook is '**Stable**'.

Shree Rayon Private Limited (SRPL) was incorporated in the year 1999 by Mr. Bharat Mehta and Mr. Girish Mehta as the directors. The company is into manufacturing of grey cloth used for suiting purpose. The company has three manufacturing facilities in Tarapur, Maharashtra with capacities of 27 lakh meters per annum. The company procures its raw materials, yarns from local players. The company caters to clients such as Raymonds, DIGJAM, Siyarams, to name a few.

Key Rating Drivers

Strengths

- **Experienced management with long track record of operation**

Mr. Bharat Mehta and Mr. Girish Mehta are the key promoters of the company. They have been working in the textile industry from past 25-30 years through a proprietorship firm and are highly experienced and well versed in understanding the demand supply trends of the textile industry. Shree Rayon Private Limited was incorporated in 1999 and is operating the textile business from past 17 years. Company has been able to built a strong reputation and brand in the industry over the years.

- **Reputed clientele and strong relationship with suppliers**

The company deals with reputed clientele in the textile industry like Raymond Limited, Grasim Bhiwani Textiles Limited, Reliance Industries Limited, etc. from past 15-17 years. This partly leads to a reduced demand risk as Shree Rayon deals with large players in the industry that has huge requirements for the grey cloth all-round the year. The company procures all its raw materials from local suppliers only.

The long term relationship of 18-20 years with the suppliers has helped time and again to bargain and get good quality supply along with competitive prices on regular basis. This strong support from the suppliers has helped the company grow significantly and create a strong base in the industry over the years.

- **Average financial risk profile**

The average financial risk profile is marked by moderate net worth, moderate gearing and debt protection measures. The networth stood at Rs 23.45 crore as on 31 March, 2017 as compared to Rs. 20.57 crore as on 31 March, 2016. The debt equity stands at 0.55 times in FY2017 times as compared to 0.61 times in FY2016. Total debt of Rs 23.01 crore consist of Rs 3.33 crore of long term debt and Rs.10.22 crore in the form of unsecured loans from directors and Rs 8.49 crore of short term debt (Cash Credit facility). Moreover, the Net Cash Accruals to Total Debt (NCA/TD) stood at 0.22 times while Debt Service Coverage (DSCR) stood at 1.95 times as on March 31, 2017. The Interest Coverage Ratio stood at 2.38 times in FY2017 as compared to 2.30 times in FY2016.

Weaknesses

- **Highly fragmented industry with intense competition**

The Company has a presence in a highly fragmented and competitive textile industry, thus limiting its bargaining power in terms of pricing and credit terms with customers. Moreover, the textile industry is highly vulnerable to fluctuation in the global market and several other factors.

- **Moderate working capital management**

The GCA stood at 134 days in FY2017 when compared to 135 days in FY2016. It mainly consists of debtors of 65 days and inventory of 71 days in FY2017. The inventory days include both the raw materials and finished goods.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of SRPL.

Outlook: Stable

SMERA believes that SRPL will maintain a stable outlook over the medium term owing to its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company registers substantial increase in scale of operations while achieving better profit margins along with improvement in working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration of working capital management.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	63.17	80.63	70.65
EBITDA	Rs. Cr.	6.03	5.73	5.11
PAT	Rs. Cr.	1.57	1.52	1.20
EBITDA Margin	(%)	9.54	7.11	7.24
PAT Margin	(%)	2.49	1.88	1.70
ROCE	(%)	14.10	15.43	29.87
Total Debt/Tangible Net Worth	Times	0.55	0.61	0.78
PBDIT/Interest	Times	2.38	2.30	2.12
Total Debt/PBDIT	Times	2.12	2.18	2.38
Gross Current Assets (Days)	Days	134	135	129

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

None

Any other information

None

Applicable Criteria

- DefaultRecognition-<https://www.smera.in/criteria-default.htm>
- FinancialRatiosAndAdjustments-<https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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	12.00	SMERA BBB- / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.86	SMERA BBB- / Stable

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ABOUT SMERA

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