Press Release

Sree Rajalakshmi Processing Mills

September 27, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 5.15 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' **(read as ACUITE B)** to the Rs. 5.15 crore bank facilities of Sree Rajalakshmi Processing Mills (SRPM). The outlook is **'Stable'**.

Established in 2015, SRPM is an Erode (Tamil Nadu) based partnership firm promoted by Mr. K V Easwaran. The firm is engaged in printing of woven and knitted fabrics along with home furnishings. The entity has a processing plant at Erode with an installed capacity of 45000 meters per day. It is also certified by GOTS (Global Organic Textile Standards).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SRPM to arrive at this rating.

Key Rating Drivers:

Strengths

- **Experienced management**

  The promoter, Mr. K V Easwaran has around two decades of experience in the textile printing business. Before starting the entity, the promoter ran a proprietorship firm for over 20 years under the name 'Sree Rajalakshmi printing Mills'. In FY2018, the firm has invested about Rs.5.60 crore for setting up of printing unit. The entity benefits from promoter's good relationship with major clients in the industry. The entity has a team of experienced engineers and designers work in close proximity with the clients.

Weaknesses

- **Intense working capital operations**

  SRPM has intense working capital operations as evident from Gross Current Asset (GCA) days of 279 as on March 31, 2018 (Provisional) as against 128 days as on March 31, 2017. The high GCA days were attributed to high inventory and debtor levels. The entity has given advances to machinery to the extent of Rs.0.80 crore in FY2018 (Provisional). The inventory days stood at 56 and debtor days at 85 in FY2018 (Provisional). The firm gives credit of up to 90 days to its customers. Intense working capital management has led to full utilisation of working capital limits over the past six months ended July 2018. Creditor days were stretched to the extent of 507 days in FY2018 (Provisional) due to year end balances of 50 odd suppliers. Acuité believes that the working capital operations of the company will remain intense as evident from moderate collection mechanism and moderate inventory levels in the business.

- **Average financial risk profile**

  The financial risk profile is marked by high total outside liabilities to total net worth, high gearing and low net worth levels, however supported by comfortable debt protection metrics. The net worth stood at Rs.2.56 crore as on 31 March, 2018 (Provisional). Gearing was high at 1.81 times (Provisional) as on March 31, 2018; the firm has setup a printing unit at a cost of about Rs.5.60 crore, funded out of term debt of Rs.4.16 crore and balance out of promoter's contribution. Tangible net worth to total outside liabilities (TOL/TNW) also stood high at 2.69 times as on March 31, 2018 (Provisional) against 31.2 times in FY2017. SRPM's cash accrual in FY2017 was so low at Rs.0.05 crore, and they are expected at about Rs.0.80 crore in FY2018, against which its repayment obligations are about Rs.0.48 crore. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are comfortable at 5.31 times and 0.19 times respectively for FY2018 (Provisional). Acuité believes that the financial risk profile is expected to improve over the medium term as there are no cap-ex plans over the medium term.

- **Risk of capital withdrawals associated with a partnership firm**
  SRPM is a partnership firm and thus remains exposed to any significant withdrawal from its capital account, which can impact its capital structure and hence, the net-worth position.

Outlook: Stable

Acuité believes that the outlook on SRPM will remain 'Stable' over the medium term on account of the experience of the promoter in the textile processing industry. The outlook may be revised to 'Positive' in case the firm registers significant growth in its revenues while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of any significant stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)
Operating Income	Rs. Cr.	5.43	4.81
EBITDA	Rs. Cr.	1.06	0.05
PAT	Rs. Cr.	0.45	0.04
EBITDA Margin	(%)	19.56	1.09
PAT Margin	(%)	8.30	0.75
ROCE	(%)	17.95	112.47
Total Debt/Tangible Net Worth	Times	1.81	0.00
PBDIT/Interest	Times	5.31	104.22
Total Debt/PBDIT	Times	4.36	0.00
Gross Current Assets (Days)	Days	279	128

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument

https://www.acuite.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
Term loans	Not Applicable	Not Applicable	Not Applicable	4.25	ACUITE B / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE B / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.40	ACUITE B / Stable

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in Sethu Madhav Analyst - Rating Operations Tel: 022-67141128 sethu.madhav@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:
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