

April 03, 2013

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	5.25	SMERA B/Stable/Assigned
Term Loan I	0.27	SMERA B/Stable/Assigned
Term Loan II	0.50	SMERA B/Stable/Assigned
Letter of Credit	1.50	SMERA A4/ Assigned

SMERA has assigned a rating of '**SMERA B**' (read as SMERA Single B) to Rs. 6.02 crore long term facilities (fund based) and '**SMERA A4**' (read as SMERA A four) to Rs. 1.50 crore short term facilities (non – fund based) of Shri Arunachaleswarar Tex (SAT). The outlook is '**Stable**'. The ratings are constrained by SAT's small scale of operations in a highly competitive and fragmented textile industry, below average financial profile characterized by low profitability, weak coverage indicators and stressed liquidity position marked by high working capital limit utilization. However, the rating derives support from extensive experience of the management and established relationships with their customers and suppliers.

The company is engaged in trading of specialized & value added yarn and manufacturing of knitted fabrics. SAT has a low scale of operations with operating income of Rs 19.39 crores and PAT of Rs 0.25 crores in FY 2012. Trading of yarn contributes around 92% of the company's total revenue. Though the revenue grew at a marginal rate of 2% CAGR during the period from FY 2008 to FY 2012, YOY revenue declined by 33% between FY 2011 & FY 2012, i.e. from Rs 29.31 crores to Rs 19.39 crores. Decline was mainly on account of the adverse conditions in Tamil Nadu due to temporary closure of dyeing units, acute power shortage and raw material price fluctuation. A low entry barrier in a highly competitive and fragmented industry and small size of SAT's operations restricts its ability to be flexible in pricing of its products. SAT mainly caters to traders and manufacturers of Tirupur (one of the textile hubs of India), West Bengal, Madhya Pradesh and Jammu & Kashmir, thus reducing its geographical concentration risk. It purchases yarn for trading from the domestic markets of Tamil Nadu and also serves the customized needs of the customers.

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SAT earns substantial income from leasing its machineries to associate concern, which is not its main line of business. Profitability of the company stood at 1.27 % for FY 2012 mainly on account of income received from leasing of machineries. The net profit margin, excluding the leasing income, stands at 0.09%, indicating weak profitability. Capital structure of the company remained highly leveraged with an overall gearing of 2.15 times as on 31st March, 2012 (excluding interest free unsecured loans), mainly on account of low networth base and higher utilization of working capital borrowings. Liquidity position of the company remained weak with 97% utilization of the working capital limits in the last 6 months. Owing to stressed liquidity due to increase in the working capital cycle from 39 days in FY 2011 to 90 days in FY 2012, there is an instance of availing ad-hoc limit to meet its working capital requirement. The coverage indicators are weak with DSCR standing at 0.96 due to high interest cost in FY 2012 as a result of increased working capital borrowings and low profitability.

Mr. T.A.S. Dhanddabani, Managing Partner, is the main promoter of SAT. He has an experience of around four decades in similar line of business and looks after the overall business of the company. Extensive years of experience have led to long standing relationship with customers and suppliers resulting into repeated orders and enabling specialised yarn availability.

Outlook: Stable

SAT has 'Stable' outlook. SMERA believes that SAT will continue to benefit from the experience of the promoter and established relationships with customers & suppliers. However, the company's ability to improve the scale of operation and the operating profit margins and manage working capital effectively are the key rating sensitivities.

About Shri Arunachaleswarar Tex

SAT was established in the year 2000 as proprietorship concern by Mr. T.A.S. Dhanddabani. Later, in the year 2008, its constitution was changed to partnership firm with Mr. T.A.S. Dhanddabani and Mrs. D. Shashivarnam as partners. Currently the day to day operations of the firm is looked after by Mr. T.A.S. Dhanddabani, who has an experience of around four decades in similar line of business.

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The company was initially engaged in trading of specialized & value added yarns; from FY 2008 it started manufacturing of knitted fabrics. However, trading activity contributes approximately 92% of the total revenue. SAT manufactures knitted fabrics like Ultra Light Weight Knitted Fabric, Plated Knit Stretch Fabric, Interlock Knitted Fabric which are mostly used for manufacturing hosiery garments and for trading business, it purchases yarn like Lenzing Modal Blends, Amsler Effect Yarns, various kinds of Slubs, etc. from domestic market and also has minimal imports from China. SAT has a sole manufacturing unit and godown at Tirupur, Tamil Nadu.

For FY 2012, SAT reported a net profit of Rs. 0.25 Crores on a total income of Rs. 19.39 Crores as against a net profit of Rs. 0.46 Crores on a total income of Rs. 29.31 Crores for FY 2011.

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