

April 29, 2013

Facilities	Amount (Rs. Crore)	Rating
Term Loan I	2.06	<b>SMERA B/Stable/Assigned</b>
Term Loan II	0.20	<b>SMERA B/Stable/Assigned</b>
Term Loan III	2.93	<b>SMERA B/Stable/Assigned</b>

SMERA has assigned a rating of '**SMERA B**' (read as SMERA Single B) to Rs. 5.19 crore long term facilities (fund based) of ARS Fabrics Private Limited (ARS). The outlook is '**Stable**'. The rating assigned to ARS Fabrics Private Limited (ARS) is primarily constrained due to limited track record with small scale of operations in a highly competitive and fragmented textile industry, high dependency on very few customers, limited management experience, low debt servicing coverage ratio, accumulated losses and debt funded capex plan. However the risks are partially mitigated by steady revenue growth and presence around the textile cluster.

ARS is a relatively new and a small player in the highly competitive and fragmented textile industry with limited presence in the textile value chain. Limited management experience in similar business and concentration on 2 customers' further limits its bargaining power and increases its dependency for growth & margins on the customer's growth plans.

Company's debt funded capex plan of ₹ 430.00 (in lakhs) to expand its manufacturing capacity to 40 lakh metres per annum by adding 12 new imported Airjet weaving looms, exposes the company to project execution related risk and puts further stress on the debt service coverage ratio, which is presently low at 1.07 for FY 2012.

Company registered a healthy CAGR of 27% during the period from FY 2008 to FY 2012. As per sale tax returns, the company has earned revenue of ₹ 159.30 (in lakhs) for the period from April, 2012 to February, 2013. Financial risk profile is characterized by moderately high gearing of 1.62 times as on 31/Mar/2012 when compared to 3.20 times as on 31/Mar/2011 mainly on account of infusion of capital and net profit earned by the company which led to partial wipe off of the

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accumulated losses. After incurring depreciation losses till FY 2011, the company made profit with margins of 6.62% in FY 2012. The interest coverage stood at moderate level of 2.60 times in FY 2012 mainly on account of increase in the operating profits.

Net cash accruals to total debt ratio stands at 0.29 times as on 31/Mar/2012 showing a favorable position for repaying debt obligations at the current cash generation level.

Further, presence around the textile cluster in Tamil Nadu benefits the company in easy availability and procurement of raw material and also to gain new customers.

#### **Outlook: Stable**

ARS has a 'Stable' outlook. SMERA believes that ARS will continue to maintain the existing financial risk profile due to infusion of capital by the promoters and maintaining leverage at moderate levels. However, the company's ability to enhance the scale of operations and generate healthy cash flows are the key rating sensitivities.

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### About ARS Fabrics Private Limited

ARS Fabrics Private Limited (ARS) was incorporated in the year 2005 under the directorship of Mr. K. Thangavelu, Mr. A. Duraisamy, Mr. R. Paramasivanandam, Mr. P. Chinnusamy, Mr. T. Vasudevan, Mr. K. Muthaiya, Mr. M. Ramasamy, Mr. S. Athanari and Mrs. C. Shanthi. At present the day to day operations of the company are looked after by Mr. T. Vasudevan.

ARS is engaged in manufacturing of cotton grey fabrics on job work basis in the range of 72 to 117 picks. The company serves to very few domestic customers and has commenced its operations from 2007.

ARS has its manufacturing unit at Tiruchengode, Namakkal, Tamil Nadu where it has installed 12 Airjet weaving looms with 800 rpm to 850 rpm which generate capacity of around 20.00 lakhs metres of grey fabric per annum.

### Contact List

Media/Business Development	Analytical Contacts	Rating Desk
Mr. Virendra Goyal, VP- Sales - SME Tel : +91- 22 - 67141177 Cell : +91 9930074009 Email : <a href="mailto:virendra.goyal@smera.in">virendra.goyal@smera.in</a> Web: <a href="http://www.smera.in">www.smera.in</a>	Mr. Charu Dutt Sharma, VP – Operations – SME Tel: +91-22-67141130 Cell: +91 9820751853 Email: <a href="mailto:charu.sharma@smera.in">charu.sharma@smera.in</a>	Tel: +91-22-67141128 Email: <a href="mailto:ratingdesk@smera.in">ratingdesk@smera.in</a>

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