



SMERA RATINGS LIMITED

Sreekumaar Texind Corporation (STC)

Rating Rationale

February 19, 2015

Facility	Amount (Rs. Crore)	Rating
Foreign Bill Purchase	7.50*	SMERA A4 (Assigned)

**Includes Export Packing Credit as a sublimit to the extent of Rs.5.00 crore*

SMERA has assigned a rating of '**SMERA A4**' (read as **SMERA A four**) to the abovementioned bank facility of Sreekumaar Texind Corporation (STC). The rating derives comfort from the firm's experienced management, healthy revenue growth and moderate leverage (debt-to-capital ratio). However, the rating is constrained by the decline in the firm's operating profit margin. The rating is also constrained by the negative cash flows reported by the firm. The rating notes that the firm's profitability is susceptible to raw material price volatility and forex fluctuation risk amidst intense competition in the textile industry.

STC, established in 1992, is a Chennai-based partnership firm engaged in manufacturing and export of readymade garments. STC benefits from its experienced management. Mr. M. A. Ramasamy, managing partner of STC, has three decades of experience in the textile industry. STC's revenues have grown at a healthy compound annual growth rate (CAGR) of ~29 per cent over the past five years. The firm's leverage (debt-to-capital ratio) is moderate at 1.15 times as on March 31, 2014.

STC's operating profit margin has declined from 9.38 per cent in FY2009-10 (refers to financial year, April 01 to March 31) to 6.91 per cent in FY2013-14. The firm reported negative cash flow from operations in FY2013-14. STC's profit margins are susceptible to volatility in prices of raw materials (cotton fabric). The firm operates in an intensely competitive segment of the textile industry. STC's profit margins are also exposed to forex fluctuation risk inherent in unhedged export receivables.

About the firm

STC, established in 1992, is a Chennai-based partnership firm promoted by Mr. M. A. Ramasamy and Mr. R. Senthil Kumar. STC undertakes manufacturing and export of readymade garments (cotton woven shirts for men and women).

For FY2013-14, STC reported profit after tax (PAT) of Rs.0.85 crore on operating income of Rs.37.00 crore, as compared with PAT of Rs.0.51 crore on operating income of Rs.24.53 crore in FY2012-13. The firm reported PAT of Rs.4.85 crore (provisional) on operating income of Rs.30.99 crore (provisional) during April 2014 to September 2014. STC's net worth stood at Rs.4.36 crore as on March 31, 2014, as compared with Rs.3.51 crore a year earlier.

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*Rating
Rationale*

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