

February 10, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	8.25*	SMERA BB/Stable (Assigned)
Term Loans	6.65	SMERA BB/Stable (Assigned)
Bank Guarantee	0.10	SMERA A4+ (Assigned)

* Includes FCL sublimit to the extent of Rs. 6.00 crore

SMERA has assigned ratings of '**SMERA BB**' (read as **SMERA double B**) and '**SMERA A4+**' (read as **SMERA A four plus**) to the above-mentioned bank facilities of R. M. Knitters Private Limited (RMKPL). The outlook is '**Stable**'. The ratings are constrained by the company's low profit margins, which are susceptible to volatility in raw material prices. The ratings are also constrained by the company's working capital-intensive operations and high leverage amidst intense competition prevalent in the textile industry. However, the ratings are supported by the company's moderate revenue growth and experienced management.

RMKPL, established in 2001, is a Mumbai-based company engaged in manufacturing of texturised yarn and knitted fabric. RMKPL reported low net profit margin of 0.31 per cent in FY2012-13 (refers to financial year, April 01 to March 31) on account of high depreciation cost (charged as per straight line method) post debt-funded capital expenditure undertaken in FY2010-11. RMKPL's profit margins are susceptible to volatility in prices of key raw material viz. polyester partially oriented yarn (POY). The company's return on capital employed (RoCE) is low at 7.94 per cent in FY2012-13.

RMKPL operates in a highly competitive industry. The company's operations are working capital-intensive as it offers liberal credit terms (of 90-125 days) to its customers while paying suppliers within 45-60 days. Consequently, RMKPL's average utilisation of working capital limit is high at 97.45 per cent during June 2013 to November 2013. The company's leverage is high at 2.02 times as on March 31, 2013. RMKPL's total debt (of Rs.16.56 crore as on March 31, 2013) mainly includes working capital loans. As on March 31, 2013, the company had three term loans (collectively amounting to Rs.6.97 crore), of which, one term loan (of Rs.0.53 crore) is fully paid off at present.

RMKPL's revenue increased at a moderate compound annual growth rate (CAGR) of 11 per cent during FY2008-09 to FY2012-13, mainly due to capacity expansion undertaken in FY2010-11. The company has an installed capacity of 3,940 metric tonnes per annum (MTPA) for knitted fabric (utilisation level being 89 per cent in FY2012-13).

RMKPL has availed export obligation against purchase of machinery under the Export Promotion Capital Good (EPCG) scheme, thereby saving import duty of Rs.2.60 crore as on March 31, 2013. The company is thus liable to pay the import duty saved (with interest thereon) in case of non-fulfilment of the export obligation (eight times of import duty saved) within the stipulated time. RMKPL started export of texturised yarn in FY2013-14. The company also plans to commence export of knitted fabric.

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RMKPL benefits from its experienced management. Mr. Surendra Jiwrajka and Mr. Narendra Jiwrajka, directors of RMKPL, have around 20 years of experience in the textile industry.

Outlook: Stable

SMERA believes that RMKPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company registers a substantial increase in its scale of operations while achieving better profit margins. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues amidst intensifying competition in its area of operation, or in case of deterioration in the company's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the company

RMKPL, incorporated in 2001, is a Mumbai-based company promoted by Mr. Surendra Kumar Jiwrajka and Mr. Narendra Kumar Jiwrajka. RMKPL is engaged in manufacturing of texturised yarn and knitted fabric. The company has an integrated manufacturing facility in Dadra, Dadra and Nagar Haveli.

For FY2012-13, RMKPL reported PAT of Rs.0.13 crore on operating income of Rs.43.56 crore, as compared with PAT of Rs.0.11 crore on operating income of Rs.41.22 crore for FY2011-12. RMKPL's net worth stood at Rs.8.19 crore as on March 31, 2013, as compared with Rs.8.06 crore a year earlier.

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