

September 17, 2013

Facilities	Amount (Rs. Crores)	Rating
Term Loan	7.72	SMERA D / Assigned
Cash Credit	6.00	SMERA D / Assigned
Letter of Credit	1.00	SMERA D / Assigned
Bank Guarantee	0.50	SMERA D / Assigned

SMERA has assigned a rating of '**SMERA D**' (**read as SMERA D**) to the Rs.13.72 crores long term facility and Rs.01.50 crores short term facility of Santhi Processing Unit Private Limited (SPUPL). The rating reflects the company's weak financial profile marked by ongoing delays in debt servicing and the company's stretched liquidity position with frequent inward cheque returns and consistent overdrawning observed in the cash credit account. The rating also factors in SPUPL's moderate scale of operations, highly fragmented and competitive nature of the textile industry, susceptibility of the company's margins to raw material price volatility and continued power shortage in Tamil Nadu. SPUPL manufactures cotton fabrics for domestic and foreign garment manufacturers. The company has a moderate scale of operations with FY 2012-13 revenues at Rs.69.72 crores. Through consistent capacity expansion, SPUPL has achieved revenue CAGR of 20.37 per cent over FY 2008-09 to FY 2012-13. SPUPL's has a strained liquidity position marked by delays in debt servicing, consistent overdrawning in cash credit account and multiple instances of inward cheque returns.

The company's main raw material is cotton yarn, which is subject to high price volatility. Further, the company faces power supply constraints owing to restrictions on industrial power usage in Tamil Nadu. This makes SPUPL dependent on alternate high-cost backup power, which has led to an approximate twofold increase (from 2.11 per cent in FY 2008-09 to 4.19 per cent in FY 2012-13) in the company's power cost as a per cent of revenues.

SPUPL had undertaken debt-funded capital expansion during FY 2010-11 to FY 2012-13 by adding plant and machinery, building and windmill. As a result, the company's net fixed assets have increased from Rs.4.54 crores as on March 31, 2011 to Rs.17.12 crores as on March 31, 2013. Similarly, the total debt has increased from Rs.7.34 crores as on March 31, 2011 to Rs.18.18 crores as on March 31, 2013. Although the company's leverage is moderate at 1.64 times as on March 31, 2013, there have been instances of delays in debt servicing during the period from April, 2012 to April, 2013.

### About the company

SPUPL was established as a proprietorship firm (named Santhi Textiles) in 1980 by Mr. S. Duraisamy. In 2000, the firm was reconstituted into a private limited company. SPUPL is engaged in manufacturing and exporting cotton fabrics. The company has two factories located in Erode, Tamil Nadu. Further, SPUPL also has manufacturing outsourcing arrangements with third parties.

For FY 2012-13, SPUPL reported net profit of Rs.2.46 crores on total income of Rs.69.72 crores as compared with net profit of Rs.0.84 crores on total income of Rs.52.47 crores in FY 2011-12.

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