Santhi Processing Unit Private Limited (SPUPL)

March 07, 2013

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	**9.00**	**SMERA B-/Stable (upgraded from SMERA D)**
Term Loan I	**1.62**	**SMERA B-/Stable (upgraded from SMERA D)**
Term Loan II	**0.95**	**SMERA B-/Stable (upgraded from SMERA D)**
Term Loan III	**1.14**	**SMERA B-/Stable (upgraded from SMERA D)**
Term Loan IV	**2.95**	**SMERA B-/Stable (upgraded from SMERA D)**
Term Loan V	**0.15**	**SMERA B-/Stable (upgraded from SMERA D)**
Term Loan VI	**4.00**	**SMERA B-/Stable (upgraded from SMERA D)**
Letter of Credit	**2.00**	**SMERA A4 (upgraded from SMERA D)**
Bank Guarantee	**0.50**	**SMERA A4 (upgraded from SMERA D)**

SMERA has upgraded the bank loan ratings of Santhi Processing Unit Private Limited (SPUPL) from 'SMERA D' to **'SMERA B/Stable/SMERA A4'**. The outlook is **'Stable'**. The upgrade is in view of regularization of debt servicing by the company. However, the ratings are primarily constrained by the company's moderate scale of operations and stretched liquidity position in a highly fragmented and competitive textile industry. The ratings are also constrained by the susceptibility of the company's profit margins to raw material price volatility and power shortage issues. However, the ratings derive comfort from the company's experienced management.

SPUPL, incorporated in 2000, is an Erode-based company engaged in manufacturing and export of cotton fabrics. SPUPL has moderate-scale operations reflected in revenues of Rs.69.72 crore in FY2012–13 (refers to financial year, April 01 to March 310). The company has a stretched liquidity evidenced by high utilisation (96.86 per cent) of cash credit limit during August 2013 to January 2014.

SPUPL faces intense competition from several players in the domestic textile industry. The company also competes with textile exporters based in China and Bangladesh.

SPUPL's profit margins are susceptible to volatility in prices of raw material (cotton yarn). Further, the company faces power supply constrains arising from restrictions on industrial power usage in

Tamil Nadu. SPUPL is thus dependent on alternate high-cost backup power. The company's power cost as a percentage of revenues increased from 2.11 per cent in FY2008–09 to 4.19 per cent in FY2012–13.

SPUPL benefits from its experienced management. Mr. S. Duraisamy, director of SPUPL, has three decades of experience in the company's line of business.

Outlook: Stable

SMERA believes the outlook on SPUPL's rated facilities will remain stable over the medium term on account of the company's experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while maintaining comfortable profit margins. Conversely, the outlook maybe revised to 'Negative' in case the company registers lower-than-expected revenues and profit margins, or in case of deterioration in the company's financial risk profile and working capital management.

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 as a private limited company. SPUPL is engaged in manufacturing and export of cotton fabrics. The company has two factories in Erode, Tamil Nadu. SPUPL also has manufacturing outsourcing arrangements with third parties.

For FY2012–13, SPUPL reported net profit of Rs.2.46 crore on total income of Rs.69.72 crore, as compared with net profit of Rs.0.84 crore on total income of Rs.52.47 crore for FY2011–12. The company's net worth stood at Rs. 11.06 crore as on March 31, 2013, as compared with Rs. 6.10 crore a year earlier.

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