

April 03, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	4.00	SMERA BB+/Stable (Assigned)
Term loans	3.98	SMERA BB+/ Stable (Assigned)
Letter of credit	3.99	SMERA A4+ (Assigned)
Bank Guarantee	0.88	SMERA A4+ (Assigned)

SMERA has assigned ratings of '**SMERA BB+**' (**read as SMERA double B plus**) and '**SMERA A4+**' (**read as SMERA A four plus**) to the abovementioned bank facilities of Marudhamalai Sri Dhandapani Spinning Mills (MSDSM). The outlook is '**Stable**'. The ratings are supported by the firm's long track record of operations and experienced management. The ratings are further supported by the firm's moderate financial risk profile and comfortable liquidity position. However, the ratings are constrained by the firm's small scale of operations in a highly competitive cotton yarn industry. The ratings are also constrained by the firm's exposure to raw material price volatility and customer concentration risk.

MSDSM, established in 1981, is a Tamil Nadu-based partnership firm engaged in manufacturing of cotton yarn. MSDSM benefits from its experienced management. The firm's promoters have around three decades of experience in the cotton yarn industry. MSDSM's interest coverage ratio is strong at 4.71 times in FY2012-13 (refers to financial year, April 01 to March 31). The firm's gearing (debt-to-equity ratio) is moderate at 1.72 times as on March 31, 2013. Moreover, MSDSM has a comfortable liquidity position evidenced by low utilisation (~43.60 per cent) of cash credit limit during March 2013 to December 2013.

MSDSM has small-scale operations reflected in revenues of Rs.19.13 crore in FY2012-13. The firm faces intense competition from several players in the cotton yarn industry. MSDSM's profit margins are exposed to volatility in raw material prices. The firm's raw material cost as a percentage of total sales was 55 per cent in FY2012-13. MSDSM is also exposed to customer concentration risk as the firm derives ~90 per cent of its total revenue from three customers.

Rating sensitivity factors

- Ability to scale up operations while maintaining comfortable liquidity position and stable profit margins
- Diversification of clientele

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Outlook: Stable

SMERA believes the outlook on MSDSM's rated facilities will remain stable over the medium term. The outlook may be revised to 'Negative' in case of sharp deterioration in the firm's profit margins or capital structure. The outlook may be revised to 'Positive' in case the firm demonstrates strong growth in revenues with improvement in liquidity position.

About the firm

MSDSM, established in 1981, is a Tamil Nadu-based partnership firm promoted by Mr. M. Narayanaswamy, Mr. N. Shantha and Mr. N. Prabhu. MSDSM is engaged in manufacturing of cotton yarn (80s-120s count range). The firm has a factory unit in Coimbatore, Tamil Nadu.

For FY2012-13, MSDSM reported net profit of Rs.1.54 crore on total income of Rs.19.13 crore, as compared with net profit of Rs.0.68 crore on total income of Rs.13.33 crore for FY2011-12. The firm's net worth stood at Rs.4.97 crore as on March 31, 2013, as compared with Rs.3.73 crore a year earlier.

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