

May 20, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	4.50*	SMERA BB+ / Stable (Reaffirmed)
Term Loan I	6.40	SMERA BB+ / Stable (Reaffirmed)
Term Loan II	0.81	SMERA BB+ / Stable (Reaffirmed)
Special Line of Credit	0.50	SMERA A4+ (Reaffirmed)
Foreign Letter of Credit	2.00#	SMERA A4+ (Reaffirmed)
Proposed Cash Credit	1.00	SMERA BB+ / Stable (Assigned)
Proposed Term Loan	0.50	SMERA BB+ / Stable (Assigned)
Proposed Foreign Letter of Credit	1.50	SMERA A4+ (Assigned)

* Includes Packing Credit as a sublimit to the extent of Rs.0.50 crore

#Includes Domestic Letter of Credit as a sublimit to the extent of Rs.0.30 crore

SMERA has reaffirmed long-term rating of '**SMERA BB+**' (read as SMERA double B plus) and short-term rating of '**SMERA A4+**' (read as SMERA A four plus) to the Rs.17.21 crore bank facilities (enhanced from Rs.14.21 crore) of Raman FibreScience Private Limited (RFPL). The outlook is '**Stable**'. The ratings are supported by the company's experienced management. The ratings are also supported by the competitive advantage gained by the company from being the only manufacturer of battery separators made from glass fibre in pouchable grade. The ratings factor in benefits related to growing acceptance of the company's products. The ratings also draw comfort from improvement in the company's financial risk profile. However, the ratings are constrained by the company's small scale of operations and limited track record in manufacturing glass fibre battery separators. The ratings are also constrained by the company's high dependence on the automobile sector; however, replacement market and non-auto battery segment provides stability to RFPL's business.

Update

For FY2012-13 (refers to financial year, April 01 to March 31), RFPL reported revenue of Rs.20.03 crore, which is lower than the company's projected revenue of Rs.23.83 crore for the same year. The shortfall was mainly attributed to slackness in inverter and automotive battery market. RFPL's revenue growth was stagnant (at ~2 per cent) in FY2012-13. However, the company's revenue increased by 57 per cent (to Rs.31.85 crore) in FY2013-14 on account of spurt in offtake by original equipment manufacturers (OEM), and increase in export sales, which was further aided by rupee depreciation. The company's sales to OEMs increased from Rs.3.92 crore in FY2012-13 to Rs.8.34 crore in FY2013-14. RFPL's export sales increased from Rs.2.62 crore in FY2012-13 to Rs.9.94 crore in FY2013-14.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.

RFPL's operating margin increased from 15.09 per cent in FY2012-13 to 16.61 per cent in FY2013-14 on account of economies of scale derived from increase in capacity utilisation to ~70 per cent. The company's employee cost as a proportion of sales declined from 14.30 per cent in FY2012-13 to 10.00 per cent in FY2013-14. RFPL increased prices by 5 per cent (with effect from January 2014) in the channel partner segment. Further, the company changed its supplier mix to procure raw materials at competitive prices. RFPL also implemented process optimization methods developed by its research and development centre.

RFPL's net profit after tax stood at Rs.0.74 crore in FY2012-13, as compared with Rs.1.17 crore in the previous year (a decline of ~ 36.57 per cent), and projected net profit of Rs.1.33 crore for FY2012-13. However, the company's net profit increased to Rs.2.65 crore in FY2013-14 on account of decline in interest charges and depreciation as a proportion of sales.

RFPL is currently setting up a biomass service station for substituting LPG usage in the drying process. The company thus expects to reduce energy and material cost by ~Rs.0.15 crore per annum. The service station is likely to be operational by July 2015. RFPL plans to apply for a term loan of Rs.0.50 crore for the biomass service station project. Further, the company plans debt-funded capex for capacity expansion at its existing factory unit in FY2014-15. The total project cost is estimated at ~Rs.4.00 crore, which is likely to be funded through debt of Rs.3.00 crore and promoters' funds of Rs.1.00 crore. The additional capacity is expected to be operational by FY2015-16. The aforementioned capex is expected to have marginal impact on the company's financial risk profile.

RFPL has established association with various reputed customers, including TAFE, AMCO and Exide Industries Limited. RFPL's products are mainly used in two-wheeler applications. The company has also developed battery separators for four wheeler applications. RFPL has well-established presence in the export market for four-wheeler applications; however approval, acceptance and offtake of battery separators (for four-wheeler applications) in the domestic market, and the resultant impact on the company's financial and business risk profile is a key rating sensitivity.

RFPL's gearing (debt-to-equity ratio) improved from 2.03 times as on March 31, 2013 to 1.30 times as on March 31, 2014 on account of retention of profits. The company's interest coverage ratio increased from 1.90 times in FY2012-13 to 3.57 times in FY2013-14. RFPL's cash debt service coverage ratio (DSCR) improved from 1.93 times in FY2012-13 to 3.26 times in FY2013-14.

Outlook: Stable

SMERA believes RFPL will continue to benefit over the medium term from its experienced management and strong product profile. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while achieving sustained improvement in profit margins and maintaining comfortable financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.

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 capex or working capital requirements.

About the company

RFPL, incorporated in 2007, is a Mysore-based company promoted and managed by Mr. Aroon Raman. RFPL is engaged in manufacturing of composite battery separators and filter media. The company also provides contract research services for innovations in wet laid composite materials.

For FY2013-14, RFPL reported profit after tax (PAT) of Rs.2.65 crore on operating income of Rs.31.85 crore, as compared with PAT of Rs.0.74 crore on operating income of Rs.20.03 crore for FY2012-13. The company's net worth stood at Rs.8.73 crore as on March 31, 2014, as compared with Rs.6.11 crore a year earlier.

Contact List:

Media/Business Development	Analytical Contacts	Rating Desk
Virendra Goyal Vice President – SME Sales Tel: +91 22 6714 1177 Cell: +91 99300 74009 Email : virendra.goyal@smera.in Web: www.smera.in	Umesh Nihalani Head – Corporate Ratings Tel: +91-22-6714 1106 Email: umesh.nihalani@smera.in	Tel: +91-22-6714 1170 Email: ratingdesk@smera.in

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.