

June 03, 2014

Facilities	Amount (Rs. crore)	Ratings
Term Loan	6.22	SMERA BB-/Stable (Assigned)
Cash Credit	6.00	SMERA BB-/Stable (Assigned)
Bank Guarantee	1.57	SMERA A4 (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB-**' (read as SMERA double BB minus) to the Rs.12.22 crore fund based bank facilities and a short-term rating of '**SMERA A4**' (read as SMERA A four) to the Rs.1.57 crore non-fund based bank facility of Shakthi Murugan Textiles (SMT). The outlook is '**Stable**'. The ratings are primarily constrained by significant deterioration in the company's debt protection metrics on account of large debt-funded capital expenditure. The ratings are also constrained by the firm's small operating scale and working capital-intensive operations. The ratings factor in the susceptibility of the firm's profit margins to raw material price volatility and intense competition prevalent in the textile industry. However, the ratings are supported by the firm's established track record of operations, healthy profit margins, widespread marketing network and experienced management.

SMT, established in 1999, is a Coimbatore-based partnership firm engaged in manufacturing of cotton yarn and generation of wind power. SMT has set up a weaving facility of 16 looms (with total capacity of 22 lakhs meters per annum) at total project cost of Rs.10.00 crore, which is funded through bank borrowings of Rs.6.76 crore and promoters' funds of Rs.3.24 crore. The commercial weaving operations have started in April 2014. SMERA believes the aforementioned debt-funded project will exert significant pressure on SMT's debt protection metrics. SMT has small-scale operations reflected in revenue of Rs.8.77 crore (for spinning division) in FY2012-13 (refers to financial year, April 01 to March 31). The firm's operations are working capital-intensive, as reflected in high gross current assets of 228 days in FY2012-13. Further, SMT's profit margins are susceptible to volatility in prices of raw cotton. The firm faces intense competition from several players in the textile industry.

SMT's operating profit margins and net profit margins are healthy at 28.16 per cent and 11.68 per cent respectively in FY2012-13. The firm benefits from its widespread marketing network in India. SMT also benefits from its experienced management. Mr. R. Murugesan, partner of SMT, has around two decades of experience in the textile industry.

### Key rating sensitivity factors

- Optimum utilisation of weaving capacity
- Quality of receivables in the wind power segment

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**Outlook: Stable**

SMERA believes that SMT's outlook will remain stable in the medium term. The firm will continue to benefit over from its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected net cash accruals from existing and new capacities. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in firm's working capital cycle or liquidity position.

**About the firm**

SMT, established in 1999, is a Coimbatore-based partnership firm promoted by Mr. R. Murugesan, Mr. Velumani Shanmugam, Ms. Shanti Subramaniam and Mr. M. Naveen. SMT is engaged in manufacturing of cotton yarn. The firm is also involved in generating wind power since 2004.

SMT manufactures cotton yarn in count range of 60s-100s. The firm has a factory unit in Coimbatore (Tamil Nadu), with total installed capacity of 15,696 spindles.

SMT has set up weaving division comprising 16 looms with total installed capacity of 22 lakhs meters per annum. The commercial weaving operations have commenced in April 2014.

SMT owns four windmills (in Kanyakumari, Tamil Nadu) with installed power generation capacity of 2.20 MW. The firm uses most of the wind power for captive consumption and sells the remaining wind power to TNEB.

For FY2012-13, SMT reported PAT of Rs.1.39 crore on operating income of Rs.11.87 crore, as compared with PAT of Rs.0.58 crore on operating income of Rs.10.69 crore for FY2011-12. SMT's net worth stood at Rs.10.92 crore as on FY2012-13, as compared with Rs.8.78 crore a year earlier. The firm registered revenues of Rs.8.18 crore (provisional) during April 2013 to December 2013.

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