

October 30, 2015

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

SMERA has reaffirmed the ratings of '**SMERA BB-**' (read as SMERA double B minus) and '**SMERA A4** (read as SMERA A four) on the Rs. 13.79 crore bank facilities of Shakthi Murugan Textiles (SMT). The outlook is '**Stable**'. The ratings reflect firm's established operational track record, extensive experience of partners in the textile industry and healthy financial profile marked by comfortable gearing. The ratings strengths are partially offset by moderate scale of operations and the susceptibility of SMT's profitability to volatility in raw material prices.

Update

In FY2014-15, SMT's recorded operating income of Rs.20.50 crore which in line with SMERA's expectations. SMERA expects the firm to sustain its growth momentum over the medium term. The firm's operating profitability during FY2014-15 was 3.47 per cent, lower than FY 2012-13 owing to adverse movement in raw material prices and low offtake windmill power. However, SMERA expects the firm's profitability to improve during FY2015-16, owing to better capacity utilization of weaving division and stable raw material prices during six months ended September' 2015. Nevertheless, volatility in raw material prices and its consequent impact on SMT's profitability remains key rating sensitivity factors. The firm's liquidity remains adequate for the rating category marked by adequate cash accruals in relation to debt obligations and moderate utilisation of working capital limits.

Outlook: Stable

SMERA believes SMT will continue to benefit over the medium term from its established market position and experienced management. The outlook may be revised to 'Positive' in case the firm achieves sustained improvement in profit margins while maintaining healthy revenue growth leading to further improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of significant decline in the firm's cash accruals or deterioration in its working capital management leading to weakening of its financial risk profile.

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.

Rating Sensitivity Factors

- Increasing scale of operations while achieving healthy profit margins
- Future capital expenditure plans and its funding mix
- Greater than expected capital withdrawal by partners

About the Firm

SMT, established in 1999, is a Coimbatore-based partnership firm promoted by Mr. R. Murugesan, Mr. Velumani Shanmugan, Ms. Shanti Subramaniam and Mr. M. Naveen. SMT is engaged in manufacturing of cotton yarn and weaving of grey fabrics. The firm is also involved in generating wind power which used for both captive consumption and sale to TNEB.

The day-to-day operations of the firm are managed by Mr. R. Murugesan and Mr. M. Naveen, partners of the firm.

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