

Saffron Met Yarns Limited

April 05, 2018

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|---------------------------|--|---|---------------|
| Long Term Bank Facilities | 9.75 | CARE BB-; Stable [Double B Minus; Outlook: Stable] | Reaffirmed |
| Total Facilities | 9.75 (Rupees Nine crore Seventy Five lakh only) | | |

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Saffron Met Yarns Limited (SMYL) continue to remain constrained on account of moderate scale of operations with thin profit margins, moderate capital structure, moderate debt coverage indicators and working capital intensive nature of operations. The rating further continues to remain constrained on account of labor intensive nature of its operations along with presence in fragmented industry with limited value addition and susceptibility of profit margins to volatility in raw material prices.

The rating, however, derives strength from the successful completion of debt funded capex in FY17 (refers to the period April 1 to March 31), experienced promotes and location advantage.

SMYL's ability to increase its scale of operations and improve its profit margins and solvency position along with efficient working capital management would remain the key rating sensitivities.

Detailed description of key rating drivers

Key Rating Weaknesses

Moderate scale of operations along with thin profit margins

The total operating income (TOI) of SMYL decreased and stood moderate at Rs.24.59 crore during FY17 as against Rs.37.22 crore during FY16. During FY17, PBILDT margin remained at 6.84% as against 6.04% during FY16. However, PAT margin continued to remain thin at 0.61% in FY17 (0.98% during FY16).

Moderate capital structure and debt coverage indicators along with working capital intensive nature of operations

The capital structure as marked by overall gearing ratio improved marginally and continued to remain moderate at 1.73 times as on March 31, 2017 as against 1.85 times as on March 31, 2016. Further, debt coverage indicators marked by total debt to gross cash accruals continued to stand moderate at 12.91 times as on March 31, 2017 (8.01 times as on March 31, 2016). Interest coverage ratio also stood moderate at 1.74 times during FY17 (2.02 times during FY16).

The operations remained working capital intensive in nature as indicated by current ratio of 1.26 times as on March 31, 2017 and working capital cycle of 125 days in FY17. The average utilization of working capital bank borrowing limit remained high at 95% for last 12 month period ended February, 2018.

Labor intensive nature of operations along with presence in fragmented industry with limited value addition and susceptibility of profit margins to volatility in raw material prices

Zari manufacturing is based on the skill set of artisans which are skilled people who possess the knowledge for preparation of zari. Further, zari manufacturing is fragmented industry with a very low level of automation and limited value addition. The major inputs are gold, silver, copper, good quality water, power, gilding chemicals, dyes and spirit. There are high fluctuations in the prices of the basic raw materials such as gold, silver, and copper prices which are dependent upon global demand-supply scenario.

Key Rating Strengths

Successful completion of debt funded capex

SMYL has installed machinery for cutting with a total project cost of Rs.4.33 crore, which will improve quality of its products and is expected to result into the increase in demand from its customers. Machinery is already installed, while the commercial production is expected to commence from April, 2018.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Experienced promotes and location advantage

SMYL is promoted by Mr. Brijendra Kishanlal Chopra (Director) who has an experience of about 30 years in the zari business. He looks after overall management of company. Further, SMYL's presence in textile hub results in benefit derived from lower logistic expenditure, easy availability and procurement of raw materials at effective prices.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology-Manufacturing Companies](#)

About the Company

SMYL was incorporated in September 2009 as SMYL by Mr. Brijendra Kishanlal Chopra and Mrs. Surinderkaur Chopra. Subsequently, during December 2010, the company got converted into public limited company and resumed its current name. SMYL is engaged in manufacturing of Jari Kasab which finds its application in handicrafts and fashion segment. The major end uses of the zari thread manufactured in Surat include sarees (as a weaving thread for the world famous Banarasi and Kanjeevaram sarees), dress material, and upholstery made ups; for craft- laces and borders, embroidery, rakhi, bangles, badges and gift articles. SMYL operates from its ISO 9001:2008 manufacturing facility located at Surat (Gujarat) with an installed capacity to manufacture 1650 tonnes per annum of zari on March 31, 2017. SMYL sells Jari in the brand names of "Saffron".

| Brief Financials (Rs. crore) | FY16(A) | FY17 (A) |
|------------------------------|---------|----------|
| Total operating income | 37.22 | 24.59 |
| PBILDT | 2.25 | 1.68 |
| PAT | 0.36 | 0.15 |
| Overall gearing (times) | 1.85 | 1.73 |
| Interest coverage (times) | 2.02 | 1.74 |

A: Audited

Till February 28, 2018 (Provisional), SMYL has achieved a turnover of Rs.23.50 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact

Name: Mr ChintanSoni

Tel: 079-40265634

Cell: 8511190016

Email: chintan.soni@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank

facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|-----------------------------|------------------|-------------|---------------|-------------------------------|---|
| Fund-based - LT-Cash Credit | - | - | - | 6.50 | CARE BB-; Stable |
| Fund-based - LT-Term Loan | - | - | August, 2024 | 3.25 | CARE BB-; Stable |

Annexure-2: Rating History of last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---------|--|-----------------|--------------------------------|------------------|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Fund-based - LT-Term Loan | LT | - | - | - | - | - | 1)Withdrawn (09-Mar-16) |
| 2. | Fund-based - LT-Cash Credit | LT | 6.50 | CARE BB-; Stable | - | 1)CARE BB-; Stable (28-Apr-17) | - | 1)CARE BB- (09-Mar-16) |
| 3. | Fund-based - LT-Term Loan | LT | 3.25 | CARE BB-; Stable | - | - | - | - |

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 851111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com