

Saffron Met Yarns Limited

April 28, 2017

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	6.50	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Re-affirmed
Total	6.50 (Rupees Six crore and Fifty lakh only)		

Rating 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 the moderate scale of operations, thin profit margins, moderately leveraged capital structure, moderate debt coverage indicators and elongated working capital cycle. The rating is further constrained on account of lobar intensive nature of operations coupled with presence in competitive industry and susceptibility of profit margins to raw material price fluctuations.

The rating, however, continues to derive comfort from the experience of the promoters in the textile industry and location advantage in terms of presence in textile hub.

The ability of SMYL to increase its scale of operations, improvement in profit margins and capital structure as well as managing its working capital requirement efficiently would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key rating weaknesses

Thin profit margins, moderately leveraged capital structure and moderately weak debt coverage indicators

During FY16, profit margins of SMYL improved marginally by 14 bps compared to the previous year marked by PBILDT margin of 6.04% (5.90% during FY15) and PAT margin of 0.98% (0.65% during FY15). However, profit margins of the company continued to remain thin on account of limited value addition and presence in highly competitive segment of textiles industry.

Capital structure of SYML improved as on March 31, 2016 marked by debt equity ratio of 0.06 times (0.09 times as on March 31, 2015) and overall Gearing ratio of 1.85 times (2.05 times as on March 31, 2015). Marginal improvement in Capital Structure was mainly due to full repayment of term loan during FY16. However due to full utilisation of working capital bank borrowing, its overall gearing remained moderately leveraged.

As on March 31, 2016, debt coverage indicators of SMYL continued to remain moderate marked by total debt to GCA of 8.01 times (8.22 times as on March 31, 2015) and interest coverage ratio of 2.02 times (2.19 times during FY15).

Moderate liquidity position

As on March 31, 2016; liquidity position remained moderate as indicated by current ratio of 1.09 times (1.01 times as on March 31, 2015) and quick ratio of 0.77 times (0.67 times as on March 31, 2015). During FY16, working capital cycle of the company remained in line with previous year at 77 days as against 76 days during FY15 while utilization of bank borrowing remained full for trailing 12 month period ended February 2017.

Labor intensive nature of operations

Zari manufacturing is based on the skill set of artisans which are skilled people who possess the knowledge for preparation of zari. The quality of raw material largely contributes towards the quality of the final product. The industry lacks in terms of the standardization of the raw material and other inputs including water used for the process. However, due to lack of technology upgradation and lack of standardization of processes prevents the industry from raising the quality of the final product.

Key rating strengths

Experienced promoters and management

SMYL is promoted by Mr Brijendra Kishanlal Chopra (Director) and has experience of about 30 years in the zari business. He looks after overall management of the company. He is assisted by Mrs Surinderkaur Chopra (Director) who has experience of about 25 years in zari business. With the long standing average industry experience of around 28 years the promoters have established strong relationships with its customers.

Locational Advantage

SMYL's manufacturing facilities are located in Surat district of Gujarat. This place enjoys good road & rail connectivity leading to better lead time and facilitating delivery of finished products in a timely manner. Nearness to the end user industries / markets helps it to understand the market need and facilitates to respond quickly to the end-user requirements including service aspects. Moreover, Surat is historically known as the place for making finest zari and enjoys high 'Surat' brand equity.

²Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

Analytical Approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing companies](#)

[Financial Ratios - Non-Financial Sector](#)

Company Background

SMYL was incorporated in September 2009 as Saffron Met Yarns Pvt. Ltd. (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, 2016. SMYL sells Jari in the brand names of "Saffron".

During FY16 (A), SMYL reported PAT of Rs.0.36 crore on a TOI of Rs.37.22 crore as against PAT of Rs.0.22 crore on a TOI of Rs.33.61 crore during FY15. Till February 2017 (Provisional), SMYL has achieved a turnover of Rs.25.00 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.

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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
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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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (09-Mar-16)	1)CARE BB- (06-Jan-15)
2.	Fund-based - LT-Cash Credit	LT	6.50	CARE BB-; Stable	-	-	1)CARE BB- (09-Mar-16)	1)CARE BB- (06-Jan-15)

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