

## Sri Raja Vinayagar Mills

June 06, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	24.07	<b>CARE B+; Stable; ISSUER NOT COOPERATING*</b> (Single B Plus; outlook: Stable; ISSUER NOT COOPERATING*)	<b>Issuer not cooperating; Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)</b>
Short term Bank Facilities	3.00	<b>CARE A4; ISSUER NOT COOPERATING</b> (Single A Four; ISSUER NOT COOPERATING*)	<b>Issuer not cooperating</b>
<b>Total</b>	<b>27.07</b> <b>(Rupees twenty seven crore and seven lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Sri Raja Vinayagar Mills (SRVM) to monitor the rating vide e-mail communications/ letters dated April 25, 2018, May 10, 2018, May 16, 2018 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the rating. **In the absence of minimum information required for the purpose of rating, CARE is unable to express opinion on the rating. In line with the extant SEBI guidelines, the rating on Sri Raja Vinayagar Mills's bank facilities will now be denoted as CARE BB+; Issuer not Cooperating/CARE A4+; Issuer not cooperating; ISSUER NOT COOPERATING\***

***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.***

### Detailed description of the key rating drivers

*At the time of last rating on March 2016 the following were the rating strengths and weaknesses*

#### Key Rating weakness

**Relatively small albeit growing scale of operations and capital withdrawal risk associated with partnership nature of the firm**

The scale of operations of SRVM is relatively small with a total income of Rs.74 crore during FY15. However, the total revenue of the firm has increased over the years. With gradual addition of capacity and improvement in utilisation levels, the firm's total income increased from Rs.52.1 crore in FY12 to Rs.74.3 crore in FY15 registering a CAGR of 12.56%. The present manufacturing unit was set up as a green-field unit in 2003. The firm being a partnership concern is exposed to inherent risk of capital withdrawal by the partners, due to its business constitution. However, the partners have not withdrawn capital in the three years ended March 2014. Going forward, ability of the firm to support its scale of operations without hampering its

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

\* Issuer did not cooperate; Based on best available information

leverage position will be critical to the financial prospects of the firm. Any substantial withdrawal of partners' capital account could impact the net worth and thereby alter the financial profile of the firm.

#### **Volatile raw material prices impacting profit margin**

The prices of cotton and cotton yarn are governed by various factors such as area under cultivation, monsoon, export quota fixed by the government, international demand-supply situation, etc. The firm procures cotton mostly on cash basis from Andhra Pradesh, Maharashtra, Karnataka etc. It also procures around 10% of its raw material requirement through Letter of Credit (LC). Domestic prices for various varieties of raw cotton have followed a declining trend in the past mainly on account of decline in exports due to falling demand from China. Cotton being the major raw material of spinning mills like SVRM, movement in cotton prices without parallel movement in yarn prices impact their profitability. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices.

#### **Competitive nature of the industry**

SRVM operates in the textile industry, with large number of organized and unorganized players. This competitive nature of the industry segment restricts pricing flexibility, entailing thin operating margins for the companies present within this segment. Moreover, due to high degree of fragmentation, small players hold very low bargaining power against both its customers as well as its suppliers resulting in such companies operating at very thin profit margins. Going forward, ability of SRVM to manufacture value added fabrics and integrate its production activity will have a positive impact on its margins.

#### **Key rating strengths**

##### **Experience of the partners in the textile business**

The partners of SRVM have around two decades of experience in the cotton textile industry. Before starting SVRM, Mr Saminathan was engaged in merchant export of textile garments. The partners established SVRM with an installed capacity of 6,000 spindles in November, 2003. The firm expanded its operations in three phases over the years and the last expansion was completed in September 2011, with an addition of 6,000 spindles. The day-to-day operations of the firm are managed by Mr Saminathan, who also oversees the export sales. Mr Palanisamy manages the domestic sales and Mr. Thilak (son of Mr Saminathan and partner in SRVM) takes care of finance activities.

##### **Established relationship with reputed clients**

The firm has been in this business for over a decade and over the period of time has established good relationship with various reputed companies. Furthermore, as a value addition process, the firm started manufacturing of grey cotton fabric from the year 2009. Since then, the firm has established good relationships with various reputed garment companies based out of Tirupur and Kolkata. During FY14 (refers to the period April 1 to March 31), the sale of grey fabric contributed 49% to the total income of SRVM and its share increased to 80% in FY15. The top 3 clients of the firm generated around 50% of the total income during FY15. Added to this, though export revenue contributes 16% of the total revenues, the firm has strengthened its customer base over the years in the export market as well.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[Policy in respect of Non-cooperation by issuer](#)

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

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

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

[Rating Methodology-Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

**About the Firm**

Sri Raja Vinayagar Mills (SRVM) is a Coimbatore-based partnership firm engaged in manufacturing and sale of cotton yarn and grey cotton fabric. The firm was promoted in 2003 by Mr R Saminathan and his brother-in-law, Mr C. Palanisamy, each with over 20 years of experience in cotton textile industry. SRVM started its operations with an installed capacity of 6,000 spindles and undertook expansion in a phased manner. The firm has an installed capacity of 25,500 spindles as on March 31, 2015. SVRM manufactures cotton yarn in the 40's count. The firm outsources grey cotton fabric manufacturing to local job work companies and supplies the final fabric to various knitting units in Tirupur and Kolkata.

In FY15(Prov), SRVM had a Profit after Tax (PAT) of Rs.2.5crore on a total operating income of Rs.74.30 crore, as against PAT and TOI of Rs.2.3crore and Rs.71.20 crore, respectively, in FY14.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for 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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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**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	-	-	-	15.00	CARE B+; ISSUER NOT COOPERATING* Issuer not cooperating
Fund-based - LT-Term Loan	-	-	-	9.07	CARE B+; ISSUER NOT COOPERATING* Issuer not cooperating
Non-fund-based - ST-ILC/FLC	-	-	-	3.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating

\*Issuer did not cooperate

**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-Cash Credit	LT	15.00	CARE B+; ISSUER NOT COOPERATING* Issuer not cooperating	-	-	1)CARE BB+; ISSUER NOT COOPERATING* (29-Mar-17)	1)CARE BB+ (23-Jul-15)
2.	Fund-based - LT-Term Loan	LT	9.07	CARE B+; ISSUER NOT COOPERATING* Issuer not cooperating	-	-	1)CARE BB+; ISSUER NOT COOPERATING* (29-Mar-17)	1)CARE BB+ (23-Jul-15)
3.	Non-fund-based - ST-ILC/FLC	ST	3.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating	-	-	1)CARE A4+; ISSUER NOT COOPERATING* (29-Mar-17)	1)CARE A4+ (23-Jul-15)

\*Issuer did not cooperate;

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