

Sri Raja Vinayagar Mills

August 13, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	24.07	CARE B; Stable; Issuer not cooperating* (Single B; Outlook stable; Issuer not cooperating*)	Revised from CARE B+; Stable; Issuer not cooperating* (Single B Plus; Issuer not cooperating) Based on best available information
Short-term Bank Facilities	3.00	CARE A4; Issuer not cooperating (A Four; Issuer not cooperating)	Issuer not cooperating Based on best available information
Total	27.07 (Rupees Twenty seven crore and seven lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated June 06, 2018, placed the rating(s) of Sri Raja Vinayagar Mills (SRVM) under the 'issuer non-cooperating' category as SRVM had failed to provide information for monitoring of the rating and had not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. SRVM continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter/email dated July 19, 2019, July 22, 2019, July 23, 2019, July 24, 2019 and July 26, 2019. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

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 June 06, 2018, 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 revenues 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 However, the partners have not withdrawn capital in the three years ended March 2014.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 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

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

*Issuer did not cooperate; Based on best available information

thissegment. 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 Saminthan 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.

Liquidity Analysis

The current ratio of the firm stood moderate at 1.33x as on March 31, 2014 due to low current liabilities marked by sundry creditors as compared to current assets mainly on account of high debtors as on balance sheet date.

Analytical Approach: Standalone

Applicable Criteria

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

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

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

About the Company

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.

Brief Financials (Rs. crore)	FY14 (A)	FY15(P)
Total operating income	71.20	74.30
PBILDIT	9.00	8.70
PAT	2.30	2.50
Overall gearing (times)	1.26	1.19
Interest coverage (times)	1.83	1.96

***A-Audited P-Provisional**

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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; Revised from CARE B+; ISSUER NOT COOPERATING* on the basis of best available information
Fund-based - LT-Term Loan	-	-	-	9.07	CARE B; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; ISSUER NOT COOPERATING* on the basis of best available information
Non-fund-based - ST-ILC/FLC	-	-	-	3.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	15.00	CARE B; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE B+; ISSUER NOT COOPERATING* (06-Jun-18)	-	1)CARE BB+; ISSUER NOT COOPERATING* (29-Mar-17)
2.	Fund-based - LT-Term Loan	LT	9.07	CARE B; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE B+; ISSUER NOT COOPERATING* (06-Jun-18)	-	1)CARE BB+; ISSUER NOT COOPERATING* (29-Mar-17)
3.	Non-fund-based - ST-ILC/FLC	ST	3.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4; ISSUER NOT COOPERATING* (06-Jun-18)	-	1)CARE A4+; ISSUER NOT COOPERATING* (29-Mar-17)

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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