

Sri Raja Vinyagar Mills

March 29, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	24.07	CARE BB+; ISSUER NOT COOPERATING (Double B Plus; ISSUER NOT COOPERATING)	Issuer not cooperating
Short-term Bank Facilities	3.00	CARE A4+; ISSUER NOT COOPERATING (A Four Plus; ISSUER NOT COOPERATING)	Issuer not cooperating
Total	27.07 (Rupees Twenty Seven crore and Seven lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Sri Raja Vinayagar Mills to monitor the rating(s) vide e-mail communications/ letters dated May 25, 2016, July 06, 2016, February 23, 2017 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. **In the absence of minimum information required for the purpose of rating, CARE is unable to express opinion on the ratings.** In line with the extant SEBI guidelines CARE's rating on Sri Raja Vinayagar Mills's bank facilities will now be denoted as **CARE BB+/CARE A4+; ISSUER NOT COOPERATING**. **Users of these ratings (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).**

Detailed description of the key rating drivers

At the time of last rating in July 16, 2015, the following were the rating strengths and weaknesses:

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.

Financial profile marked by stable profit margins and moderate overall gearing

SVRM registered continuous growth in total operating income in the past three years ended March, 2015 and the PBILD margin remained relatively stable in the range of 11.70% to 12.60%. The firm has reported stable margins mainly through increased sale of higher quality yarn (41's count). Furthermore, fabric sales to various knitting companies have been increasing in the past two years. Such value added sales which provide relatively better margins than plain yarn exports have enabled the firm to manage the volatility in raw material prices to an extent thereby leading to stable PBIDT margins.

As on March 31, 2015, the firm has bank term debt outstanding of Rs.10 crore. Apart from term debt, the firm has a cash credit limit of Rs.15 crore and letter of credit limit of Rs.3 crore towards its working capital requirements. With repayment of debt and retention of profits, the overall gearing has improved over the years and as on March 31, 2015, SRVM had a debt-equity ratio of 0.41x and overall gearing of 1.19x.

Key Rating Weaknesses

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

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

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.

Working capital intensive nature of operations

The firm has a working capital cycle of around 125 days. On an average, the firm has a collection period of 30-45 days, while the firm procures cotton through LC, and enjoys a credit period up to 30 days from its creditors due to its long standing relationship. SRVM maintains raw materials (cotton) inventory of around 60 days and finished goods inventory of around 50 days. The firm has availed a cash credit limit of Rs.15 crore and LC limit of Rs.3 crore to manage its working capital.

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.

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](#)

[Criteria for Short Term Instruments](#)

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.

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact

Name: Mr Manish Kumar

Tel: 040-6900 0504

Cell: + 91 99495 47551

Email: manish.kumar@careratings.com

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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 BB+; ISSUER NOT COOPERATING
Fund-based - LT-Term Loan	-	-	-	9.07	CARE BB+; ISSUER NOT COOPERATING
Non-fund-based - ST-ILC/FLC	-	-	-	3.00	CARE A4+; ISSUER NOT COOPERATING

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Cash Credit	LT	15.00	CARE BB+; ISSUER NOT COOPERATING	-	1)CARE BB+ (23-Jul-15)	-	-
2.	Fund-based - LT-Term Loan	LT	9.07	CARE BB+; ISSUER NOT COOPERATING	-	1)CARE BB+ (23-Jul-15)	-	-
3.	Non-fund-based - ST-ILC/FLC	ST	3.00	CARE A4+; ISSUER NOT COOPERATING	-	1)CARE A4+ (23-Jul-15)	-	-

CONTACT**Head Office Mumbai****Mr. Amod Khanorkar**

Mobile: + 91 98190 84000

E-mail: amod.khanorkar@careratings.com**Mr. Saikat Roy**

Mobile: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CREDIT ANALYSIS & RESEARCH LIMITED**

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. Mehul Pandya**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-98242 56265

Tel: +91-79-4026 5656

E-mail: mehul.pandya@careratings.com**BENGALURU****Mr. Deepak Prajapati**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com**CHANDIGARH****Mr. Sajan Goyal**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@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**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**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**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**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**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**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

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