

August 28, 2017

## Sree Arulmani Exports

### Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based Limit	6.80	[ICRA]B (Stable) Reaffirmed
Unallocated Limit	3.20	[ICRA]B (Stable) Reaffirmed
<b>Total</b>	<b>10.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating at [ICRA]B (pronounced ICRA B) <sup>1</sup> to the Rs. 10.00-crore<sup>2</sup> long-term facilities of Sree Arulmani Exports (SAE/the firm). The outlook on the long-term rating is Stable.

### Rationale

The rating reaffirmation continues to be constrained by the firm's small scale of operations, which restricts benefits of economies of scale. The reaffirmation also takes into consideration the intense competition in the fabric industry, which coupled with low product differentiation, restricts the firm's pricing flexibility and exposes its earnings to fluctuations in raw material prices. The rating continues to factor in the thin margins and the highly-leveraged capital structure of the firm following the debt-funded capital expenditure to set up a new facility housing automatic looms.

Nonetheless, the rating reaffirmation continues to draw comfort from the extensive experience of the promoter in the weaving industry. The reaffirmation favourably factors in the improvement in the firm's operating margin in the past two years aided by a higher share of sales of relatively better quality fabric manufactured at the new facility and lower dependence on outsourced fabric production. However, the net level profitability continues to remain thin, limited by higher depreciation and financial expenses.

Going forward, the firm's ability to scale up its operations, improve its profitability and maintain comfortable capital structure by limiting withdrawals will be the key rating sensitivities.

### Key rating drivers

#### Credit strengths

- **Extensive experience of the promoter** – The firm's promoter, Mr. Ramachandran S, has nearly three decades of experience in the weaving business.
- **Established relationship with suppliers** – The firm has an established relationship with suppliers in the neighbourhood of its manufacturing facility in Coimbatore. This ensures uninterrupted availability of cotton yarn. It also has an agent network in Andhra Pradesh for yarn procurement.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 1 crore = 100 lakhs = 10 million

### Credit weaknesses

- **Small scale of operations** – The firm’s scale of operations is modest with an operating income (OI) of Rs. 32.2 crore in FY2017, limiting the firm from achieving economies of scale. This, coupled with intense competition, has resulted in its thin profitability.
- **Highly-fragmented nature of industry** – The fabric industry is characterised by the presence of a large number of players and low product differentiation. This leads to intense competition and restricts pricing flexibility, limiting profitability.
- **Risks associated with the firm’s partnership nature** – Given the partnership nature of the firm, any substantial cash withdrawals by partners is likely to have an adverse impact on its capital structure.

### Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

### Links to applicable criteria

[Corporate Credit Rating - A Note on Methodology](#)

[Rating Methodology for Indian Textile Industry - Fabric](#)

### About the company

SAE was established as a proprietorship concern in 2006 by Mr. Ramachandran S and was converted to a partnership firm in 2017 with Mr. Ramachandran and Mrs. Thulasi as partners. The promoter has extensive experience of nearly three decades in the weaving industry. The firm is involved in the production of grey cotton fabric at its manufacturing facility in Coimbatore, Tamil Nadu. The current installed capacity of the firm is 108 looms, which includes 72 conventional power looms and 36 auto power looms. The firm outsources majority of its production to around 600 looms located nearby, by virtue of which it has an overall annual production capacity of around 12 million metres of grey fabric. The firm procures cotton yarn from various spinning mills in Tamil Nadu and Andhra Pradesh, weaves it into grey fabric and markets it to garment manufacturers located across India.

In FY2017, as per provisional results, the firm reported an OI of Rs. 32.74 crore and a net profit of Rs. 0.33 crore compared with OI and net profit of Rs. 37.41 crore and Rs. 0.39 crore respectively in FY2016.

### Key financial indicators

Particulars	FY2016	FY2017*
Operating Income (crore)	37.41	32.74
PAT (crore)	0.39	0.33
OPBDITA/ OI (%)	5.74%	6.54%
RoCE (%)	11.68%	11.69%
Total Debt/ TNW (times)	2.63	2.38
Total Debt/ OPBDITA (times)	3.98	3.61
Interest Coverage (times)	2.35	2.14
NWC/ OI (%)	15.56%	17.76%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; NWC: Net Working Capital; TNW: Tangible Net Worth; RoCE: Return on Capital Employed; OI: Operating Income. Source: Financial statements of SAE and ICRA research; \*Provisional financials

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

**Any other information:** Not applicable

**Rating history for last three years**

**Table:**

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crore)	Month-year & Rating in FY2018	Month- year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015	
				August 2017	September 2016	May 2015	-	
1	Cash Credit	Long term	3.25	[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B (Stable)	-	
2	Term Loan	Long term	3.55	[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B (Stable)	-	
3	Unallocated	Long term	3.20	[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B (Stable)	-	

**Complexity level of the rated instrument**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Cash Credit	-	-	-	3.25	[ICRA]B (Stable)
Term Loan	Nov 2014	-	Nov 2021	3.55	[ICRA]B (Stable)
Unallocated Limit	-	-	-	3.20	[ICRA]B (Stable)

*Source: Sree Arulmani Exports*



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