



## Rating Rationale

Sree Karpagambal Mills Ltd

13<sup>th</sup> September 2017

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 38.70 crs of Sree Karpagambal Mills Ltd.

### Particulars

Facility Rated	Amount (Rs. Crs)		Tenure	Rating ^	
	Previous	Present		Previous (April 2016)	Present
<b>Fund Based</b>					
Cash Credit	35.00	31.00	<b>Long Term</b>	<b>BWR BB-</b> (Pronounced BWR Double B Minus) <b>Outlook: Stable</b>	<b>BWR BB-</b> (Pronounced BWR Double B Minus) <b>Outlook: Stable</b> <b>(Reaffirmed)</b>
Term loans	9.98	4.24			
Working Capital Term Loan	-	3.46			
PCFC (sublimit of Cash Credit)	(3.50)	(3.50)	<b>Short Term</b>	<b>BWR A4</b> (Pronounced BWR A Four )	<b>BWR A4</b> (Pronounced BWR A Four ) <b>(Reaffirmed)</b>
Bills- FDDBP/FDUBD (Sublimit of Cash Credit)	(1.50)	(3.00)			
<b>Non Fund Based</b>					
Letter of credit	(3.00)	(3.00)			
Bank Guarantee (Sublimit of Cash Credit)	(1.00)	(1.00)			
<b>Total</b>	<b>44.98</b>	<b>Rs. 38.70 Crores (Rupees Thirty Eight Crores Seventy Lakhs Only)</b>			

^ Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

### Rating Reaffirmed

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of the company up to FY16, Provisional financials of FY 17, publicly available information and information/clarifications provided by the management.

The ratings continue to draw strength from the extensive experience of the promoters, long track record of operations and long standing relationships with clients. However, the ratings are constrained by decline in sales and losses incurred in FY17 due to provision for bad debts, working capital intensive nature of operations, susceptibility of its operating profitability to fluctuation in raw material prices, highly fragmented and competitive nature of industry.

The ability of the company to improve its scale of operations, improve profitability and manage working capital efficiently would be the key rating sensitivities.

### **Rating Outlook: Stable**

BWR believes the **Sree Karpagambal Mills Ltd.**'s business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

### **Company Background**

Sree Karpagambal Mills limited (SKML) was incorporated in 1956 and is based in Rajapalayam, TamilNadu. The company is into manufacture and sale of cotton yarn, spun yarn, polyester yarn, polycotton yarn and grey fabric. The company has 3 production units located at Cholapuram south - Rajapalayam, Permal Patti – Rajapalayam and Cholapuram South - Rajapalayam for Spinning, Sizing and Weaving. The manufacturing units are ISO 9001:2000 certified.

Mr. A Palaniappan is the Managing director of the company and other directors are Mr. A.V. Gopalakrishnan, Mr. J Balamurugan, Mr Raghavan Shreen and Mrs Umayal Annamalai.

### **Key Risk drivers:**

#### **Strengths**

- The company is engaged in manufacture of cotton yarn since 1956 and the management has more than three decades of business experience.
- The company has a long track record of business operations and well established relationships with customers and suppliers

#### **Weaknesses**

- Decline in sales and losses incurred : The company's sales has come down to Rs. 149.58 crs in FY 17 (Rs. 161.66 crs in FY 16) due to market conditions. It has incurred a loss of Rs. 2.46 crs in FY17 on account of provision for bad debts and high power cost during FY 17.
- Weak financial Profile : Liquidity position is weak indicated by the current ratio 0.89 times . The DSCR is low at 0.69 times and gearing level is high at 2.42 times as on 31 March 2017.



### Financial Performance

SKML reported net sales of Rs.161.66 Crs and PAT of Rs. 0.70 Crs in FY 16 as against net sales of Rs. 163.16 Crs and PAT of Rs. 0.70 Crs in FY15. The Net worth was at Rs.18.38 crs as on FY16. As per provisional financials, the company has reported sales of Rs.149.58 crs for FY 17 and incurred a loss of Rs.2.46 crs.

### Rating History for the last three years (including withdrawn/suspended ratings)

Sl. No.	Instrument/Facility	Current Rating (Year 2017)			Rating History		
		Type (Long Term/Short Term)	Amount (Rs Crs)	Rating	15 Apr 2016*	2015	2014
1).	Cash Credit	Long term	31.00	BWR BB- Outlook: Stable (Reaffirmed)	BWR BB- Outlook: Stable (Assigned)	-	-
2).	Term loans		4.24				
3).	Working Capital Term Loan		3.46				
4).	PCFC (sublimit of Cash Credit)	Short Term	(3.50)	BWR A4 (Reaffirmed)	BWR A4 (Assigned)	-	-
5).	FBDN/EBR (Sublimit of Cash Credit)		(3.00)				
6).	Letter of credit		(3.00)				
7).	Bank Guarantee (Sublimit of Cash Credit)		(1.00)				
	Total		<b>Rs. 38.70 Crores (Rupees Thirty Eight Crores Seventy Lakhs Only)</b>				

\*Amount Rated Rs. 44.98

## Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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## Annexure I Key Financial Indicators

Particulars	Unit	FY 16 (Audited)	FY 17 (Provisional)
Net Sales	Rs. Crores	159.16	149.58
EBITDA	Rs. Crores	11.25	7.08
PAT	Rs. Crores	0.70	(2.46)
Tangible Net worth	Rs. Crores	18.38	15.92
Total Debt	Rs. Crores	41.90	38.60
Total Debt : Equity	Times	2.28	2.42
Current Ratio	Times	0.89	0.86



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#### **Note on complexity levels of the rated instrument:**

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#### **About Brickwork Ratings**

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