

## Rating Rationale

### Brickwork Ratings assigns 'BWR BB' & 'BWR A4' for Bank Facilities of Royal Embroidery Threads Pvt. Ltd aggregating ₹17.81 Cr.

Brickwork Ratings has assigned **BWR BB** (Pronounced BWR Double B) rating with Stable Outlook for the long term bank facilities of ₹17.81 Cr and **BWR A4** (Pronounced BWR A Four) for short term bank facilities of Royal Embroidery Threads Pvt. Ltd (RETPL)

Facility	Limits (₹ Cr)	Tenure	Rating
<b><u>Fund Based</u></b>			
<b>Cash Credit</b>	<b>11.25</b>	<b>Long Term</b>	<b>BWR BB</b> (Pronounced BWR Double B)  <b>(Outlook – Stable)</b>
<b>Term Loan</b>	<b>6.56</b>		
<b><u>Non Fund Based</u></b>			
<b>Letter of Credit (#)</b>	<b>(1.50)</b>	<b>Short Term</b>	<b>BWR A4</b> (Pronounced BWR A Four)
<b>Bank Guarantee (#)</b>	<b>(0.50)</b>		
<b>Total</b>	<b>17.81</b>	<b>(INR Seventeen Crores and Eighty One Lakhs only)</b>	

# Facilities in bracket is a sub limit of the Cash Credit facility

Term loans include foreign currency loans aggregating to USD 4.93 lakhs which have been converted at an exchange rate of ₹60 per USD.

The rating inter alia, factors promoters' experience in the embroidery threads business, established brand and long standing customer relations. The rating is however constrained by small scale of operations, moderate financial profile, and presence in unorganised, fragmented and highly competitive industry. Effective management of working capital with growing business and achievement of revenue and profitability growth as envisaged will be key sensitivity factors.

BWR has essentially relied upon the RETPL's audited financials up to the year ending March 2013, projected financials, and information and clarifications provided by the Company.

### Background

Royal Embroidery Threads Pvt Ltd. (RETPL), established in 1979, is engaged in manufacture of embroidery threads in 120 and 150 deniers. The company was initially started as a partnership firm 'Royal Agency' and was converted into a private limited company in 2007. The company

manufactures viscose rayon embroidery thread and trilobal polyester embroidery yarn from viscose rayon and offers over 2500 shades of colours. The threads are processed, dyed and packaged in cones or tubes. The threads are used for embroidery in garments, apparels, furnishing fabrics, footwear and accessories. RETPL has an installed capacity of 2500 kgs per day and average utilisation is over 95%. The partners of the erstwhile firm Mr. Shabbir Mukadam, Mr. Sajjad Mukadam, Khursheedbano Gheewala and Mr. Asadali Mukadam, are the promoters of the company.

The rating draws strength from:

**Experienced Promoters:** Promoters have over 3 decades experience in the embroidery thread business. They actively participate in the day to day operations of the company. Mr. Shabbir Mukadam is the Chairman and Managing Director of the company.

**Established Brand:** RETPL sells its thread under the brand name ‘Royal’ which is an established brand in the embroidery threads market. The company’s brand is known for its quality, high tenacity, fibre strength and colourfastness. The company’s threads are certified with Oeko-Tex standard 100 certification.

**Long Standing Customer Relations:** The company has over the years established long standing relations with its customers on the back of a known brand and quality product. The company manufactures threads in 600 standard shades and has capacity to manufacture ~2500 shades on order basis. The company sells to distributors. The company has a good distribution network comprising of over 100 dealers across textile hubs and key markets with own branches at Tirupur, Surat, Noida and Bangalore. While the company does not have an order book and receives orders on a daily basis, its long standing relations with customers has helped revenue growth.

The rating is however constrained by

**Moderate Financial Performance:**

The company’s financial profile is marked by low net worth, average capital structure, moderate coverage ratios and above average working capital requirements. The company has no capacity expansion plans in the next 18 months.

For FY13, the company registered 22% revenue growth to ₹37.35 Cr from ~₹30.57 Cr in FY12. The company estimates revenues of ₹40 Cr in FY14. Exports comprise ~5% of sales and are estimated to increase going forward.

The company sources ~90% of its raw material i.e viscose rayon from the domestic market. Of this 60% is procured from Century Rayon. Balance 10% raw material is imported from China. The company has installed new machinery in Q1FY14 to process imported rayon which has helped operating efficiencies. Operating margins have improved from 12.07% in FY13 to 15.62% in FY14 on the back of cost savings from new machine which enables lower wastage and breakage. Profit after Tax (PAT) increased from ₹ 0.19 crs in FY12 to ₹0.38 crs in FY13 and is estimated to increase to ₹1.54 crs in FY14.

Interest cover is moderate at an estimated 2.40x in FY14. As on March 31, 2013, debt equity was at 1.30x while networth stood at ₹12.23 crs, including ₹9.13 crs of unsecured loans from promoters. Networth is estimated to improve in FY14 on the back of improved profits.

The company has an above average working capital requirement. Company holds inventory of ~127 days as it has to maintain stock for various standard shades as per market requirement. Receivables are realised on average of ~62 days. Company receives credit period of ~20 days for domestic purchases and pays in advance for imports. Increase in imports going forward is expected to further extend the working capital cycle. The company operates in an unorganised, fragmented and a highly competitive market. Effective management of working capital with growing business and achievement of revenue and profitability growth as envisaged in a highly competitive market will be key sensitivity factors.

### Outlook:

RETPL benefits from experienced promoters and established customer relations. While the company expects a steady revenue growth, it faces concerns from low networth, moderate financial profile and small scale of operations in an unorganized, fragmented and a competitive industry. Improvement, revenue growth and profitability levels as envisaged and effective management of working capital with growing business will also be crucial for the company and are key rating sensitivity factors.

<b>Analyst Contact</b>	<b>Relationship Contact</b>
<a href="mailto:analyst@brickworkratings.com">analyst@brickworkratings.com</a>	<a href="mailto:bd@brickworkratings.com">bd@brickworkratings.com</a>
<b>Phone</b>	<b>Media Contact</b>
<b>1-860-425-2742</b>	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>

**Disclaimer:** Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.