



Rating Rationale

Varalakshmi Silks

3 Apr 2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹ 5.65 Crores of Varalakshmi Silks.

Particulars

Facilities	Amount (₹ Crs)	Tenure	Rating*
Fund based:			
Cash credit	0.40	Long Term	BWR B (Pronounced as BWR Single B) Outlook stable
Term loan #	5.25		
Total	5.65	INR Five Crores and Sixty Five Lakhs Only	

Term loan amount outstanding as on 2.4.2019

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

BWR has essentially relied upon the firm's audited financial results up to FY18, projected financial statement for FY19 & FY20, publicly available information and information/clarifications provided by the management.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

The rating has inter-alia, factored experience of the proprietor in the Textile industry since 2011, continued relationship with textile manufacturers, consistent growth in operating revenue & profitability level, plans to increase its production capacity, improved debt service coverage and ability to meet its debt obligations. However, the ratings are constrained by low scale of operations, high gearing, low net worth and high competition from many small and medium units in the region. Going forward ability of the firm to improve its scale of operations, to maintain its customer relationships, to improve its gearing with further infusion of capital, to execute and complete its expansion plans in a timely manner and to manage its working capital efficiently will be the key rating sensitivities.

Description of Key Rating Drivers



- **Credit Strengths:**

Management having experience in the relevant industry: The firm has been in the relevant industry since 2011. It has been able to establish long customer relationship with various reputed textile manufacturers in and around the region

Consistent growth in operating revenue & profitability level: Operating revenue for FY18 was at Rs. 3.56 crs as against Rs. 3.26 crs in FY17. Further, sales revenue Feb 2019 was estimated at Rs. 8.00 crs. While PAT for FY18 stood at Rs. 0.23 crs against Rs. 0.20 crs in FY17

Expansion plans of the management: The management plans to expand its operations by adding further 100 looms within the premises

Liquidity position of the firm: Liquidity position of the firm for FY18 was comfortable with Current ratio at 2.31 times; while working capital cycle at (6) days with receivables of 57 days

- **Credit Risks:**

Low Net worth: Net worth of the firm for FY18 was at Rs. 0.73 crs as compared to Rs. 0.56 crs in FY17. The management need to improve the net worth with further infusion of capital

High gearing ratio of the firm: Inspite of reduction in gearing ratio for FY18. Debt Equity ratio stood slightly high at 1.67 times as against 1.82 times in FY17

Geographical concentration of customers to the region of Bangalore

High competition from many organised and unorganised units in the region relating to pricing & product quality

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*



BWR believes that **M/s. Varalakshmi Silks'** 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.

About the Firm

M/s. Varalakshmi Silks (VS) was established as a Proprietorship firm on 26th May 2011, by Mrs. Saraswathi located at Yelahanka, Bangalore. The unit was set up for carrying on the business of manufacture and sale of Silk sarees, mainly specializing in Art Silk sarees. All the activities of the firm are monitored by Mr. Krishnamurthy husband to Mrs. Saraswathi, Proprietrix who has more than two decades of business experience. Presently the unit has installed around 150 power looms for carrying out its activities over two shifts with 10 working hours per shift. It manufactures art silk sarees measuring from 6.25 mts to 6.50 mts. While, it procures various raw materials like, Silk Thread, Zari and Nylon in and around the region of Bangalore. The unit manufactures and despatches particular order within 15 - 20 days from the date of receipt of the order. As per the management, the production capacity of Sarees for FY18 was at 35000 nos against 30000 nos in FY17 (with estimate of 40000 nos for FY19). The major types of looms installed are Dynamic automatic looms, Premier looms, Laxmi Shuttleless looms, etc.

The unit has presently employed 30 nos of permanent staff and approx. 25 nos of temporary workers to carry out its operations. The management, further plans to install an additional of 100 power looms to expand its manufacturing and sale of products.

Financial Performance

Operating revenue of M/s. Varalakshmi Silks for FY18 was at Rs. Rs. 3.56 crs as against Rs. 3.26 crs in FY17. Further, sales revenue estimated till Feb 2019 was at Rs. 8.00 crs. Net worth of the firm for FY18 was at Rs. 0.73 crs. Debt service coverage for FY18 has improved with ISCR at 5.17 times and DSCR at 2.03 times as compared to 4.17 times and 1.80 times respectively in FY17. Liquidity position was comfortable with CR for FY18 at 2.31 times; while conversion cycle was at



(6) days with receivables of 57 days. Net profit margin for FY18 was at 6.42 percent as against 6.19 percent in FY17.

Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Operating Revenue	₹ Cr	3.56	3.26
EBITDA	₹ Cr	0.49	0.52
PAT	₹ Cr	0.23	0.20
Tangible Net worth	₹ Cr	0.73	0.56
Total Debt/Tangible Net worth	Times	1.67	1.82
Current Ratio	Times	2.31	1.84

Rating History for the last three years

S.No	Facility	Current Rating (2019)			Rating History		
		Type	Amount (₹ Crs)	Rating	FY18	FY17	FY16
	Fund Based:						
	Cash credit Term loan	Long term	0.40 5.25	BWR B (pronounced as BWR single B) Outlook stable	-	-	-
	Total Amount		5.65	₹ Five Crores and Sixty Five Lakhs Only			

Status of non-cooperation with previous CRA (if applicable)-Reason and comments: Not Applicable

Any other information: None

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)



- [Manufacturing Companies](#)

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.



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