

## Rating Rationale

**Brickwork Ratings assigns ‘BWR B’ (Pronounced BWR B) and ‘BWR A4’ (Pronounced BWR A Four) Ratings for the Banking Facilities of ₹ 8.35 Crores of AD Textiles**

Brickwork Ratings has assigned the following Ratings<sup>1</sup> to Bank Loan facilities amounting to ₹ 8.35 Crores of *AD Textiles*

Facility	Limits (₹ Cr)	Tenure	Rating
<b>Fund Based</b>			
Cash Credit (Export Packing Credit and Foreign Bill Discounting)	4.50	Long Term	<b>BWR B (Outlook Stable) (Pronounced BWR B)</b>
Cash Credit (Stand-by Line of Credit)	0.80		
<b>Working Capital Term Loan</b>	1.95	Short Term	<b>BWR A4 (Pronounced BWR A Four)</b>
Term Loan (SME Care)	0.90		
<b>Non Fund Based Bank Guarantee</b>	0.20		
<b>Total</b>	<b>8.35</b>	<b>(INR Eight Crores and Thirty Five Lakhs Only)</b>	

BWR has essentially relied upon the audited financial results of AD Textiles up to FY12, and information and clarifications provided by the firm.

<sup>1</sup> Please refer to BWR website [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the ratings assigned

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The ratings are primarily constrained by the modest scale of operations of AD Textiles and its weak financial risk profile marked by fluctuating profit margins, moderately high leverage, and exposure to Forex risks and stressed liquidity position.

The rating also factors in the closely held family business nature of AD Textiles, its concentration risk via customers and suppliers, the highly fragmented nature of the textile industry it operates in and the poor power supply situation in Tamil Nadu.

The ratings, however, favourably take into account the vast experience of the promoters and established operations of the firm.

**Background:**

*AD Textiles*, a partnership firm was started in the year 2005 and was constituted with 3 equal profit sharing partners who have experience in the same line of business. It is a manufacturer of Home Textiles based in Karur, Tamil Nadu.

The products are textile made-ups and patch work made-ups such as Table-Linen, Kitchen-Linen, Bed Linen, Curtains, Garments and Quilts. The products are sold under the brand name of A. D. Textiles.

Top revenue earning product of the firm is the patch work textile that is exported to USA. The firm exports 100% of its production. It sells about 90% of its production to its long-term standing client Scott Ltd, USA.

The plant is well equipped with dyeing, weaving, printing & embroidery, cutting & stitching, checking & finishing and packaging facilities. It works with a weaving capacity of 2000 mts/day for 26 looms. Further, has licensed dyeing capacity of 2000kgs whereas only half of it is utilised.

Well-trained and skilled employees of the firm have expertise in doing patchwork, embroidery, quilts, cushion, duvets and other home-made-ups. There are about 450 people employed by the firm. A D Textiles is accredited with ISO 9001: 2000 quality certification.

**Financial Performance:**

As per audited financials for FY12, the firm reported an operating margin of 9.48 per cent and PAT margin of 1.04 per cent. PAT margins have remained low in the past years mainly due to high depreciation and interest on bank borrowings. The sales revenue increased by 23.68 percent from ₹14.41 Crs to ₹17.83 Crs on account of higher volume. The inventory

turnover during FY12 was 3.64 times and thereby the inventory days were high at 100 days. This is because the inventory conversion process takes about 100-120 days.

Further, in absence of any equity infusion by the partners in last three years has led to increase in net worth only to the extent of profits earned by the firm.

**Rating Outlook:**

Increase in scale of operations with improvement in the liquidity position and other debt protection indicators are the key rating sensitivities. The performance of the firm is expected to be stable over the next year.

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

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