

Rating Rationale

Brickwork Ratings assigns 'BWR B-' & 'BWR A4' for the Bank Loan Facilities aggregating ₹ 6.35 Cr of Alkas Spinning Mills Pvt. Ltd.

Brickwork Ratings (BWR) has assigned the following **Ratings¹** for the Bank Credit Facilities of ₹ 6.35 Cr of Alkas Spinning Mills Pvt. Ltd. (ASMPL)

Facility	Limits (₹ Cr)	Tenure	Rating
Cash Credit (Fund Based)	1.20	Long Term	BWR B- <i>(BWR Single B minus)</i> Outlook: Stable
Term Loan (Fund Based)	4.75		
Bank Guarantee (Non-Fund Based)	0.40	Short Term	BWR A4 <i>(BWR A Four)</i>
Total	6.35 (INR Six Crores and Thirty Five Lakhs only)		

BWR has principally relied upon the expected performance of ASMPL through projections, publicly available information and information/clarification provided by the Company's management.

The rating has, inter alia, factored the promoters' experience in textile industry and fiscal benefits under Technology Up gradation Fund Scheme (TUFS), favorable demand outlook for the cotton yarn industry. The ratings are however, constrained by it being start-up greenfield project and risk associated with stabilization of the mill as per expected operating parameters, high working capital intensive nature of business, small scale of operations, volatility in raw material prices, highly fragmented and competitive cotton spinning sector which restricts pricing flexibility.

Background:

Alkas Spinning Mills Pvt.Ltd. (ASMPL) was incorporated on August 2011 promoted by Mr.Anand and their family members. It is engaged in the manufacturing of cotton yarn and it

¹ Please refer to www.brickworkratings.com for definition of the Ratings

is located in Karur, Tamilnadu with 7.11 acres of land. ASMPL operates with an installed capacity of 4800 spindles with production capacity of 2155 kgs per day.

The company has only domestic sales at present. ASMPL markets its yarn through brokers to traders and consumers located in Erode, Salem, Karur, and Tirupur.

Project Cost:

The company has implemented the project at a cost of ₹7.91 Cr. out of which ₹ 3.16 Cr. was brought in by the promoters and the balance ₹4.75 Cr. with a term loan from Corporation Bank. The company has commenced commercial production from May 2013.

Terms of the Loan:

ASMPL has availed fund based and non-fund based credit facilities from Corporation bank. The term loan of ₹4.75 Cr. will be repaid in 32 equal quarterly installments of commencing from April-June quarter of 2014. The company had been servicing interest on time till date. The loan is secured by a mortgage on the fixed assets of the company and personal property of promoters.

Financial Projections:

For FY2013-14, the firm expects to achieve ₹11.04 Cr. of total revenues and a net profit after tax of ₹0.12 Cr. Net worth of the company is ₹2.12 Cr. as on 31.3.2013.

Rating Outlook:

Going forward, the ability of the company to stabilize production, scale up in a profitable manner, maintain a healthy financial risk profile in the context of debt repayment obligations and manage working capital effectively would remain the key rating sensitivities.

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