

March 10, 2016

Facility	Amount (Rs. Crore)	Rating
<b>Cash Credit</b>	<b>12.00</b>	<b>SMERA BB/ Stable (Upgraded from SMERA BB-/Stable)</b>

SMERA has upgraded the rating of the Rs.12.00 crore bank facility of Gajiwala Sarees (GS) to '**SMERA BB**' (**read as SMERA double B**) from '**SMERA BB-**' (**read as SMERA double B minus**). The outlook is '**Stable**'. The rating upgrade is in view of the improved revenues and capital infusion. The rating continues to draw comfort from the experienced management and moderate financial risk profile. However, the rating is constrained by the low profitability and susceptibility of the firm's profit margins to volatility in raw material prices. The rating also notes that the firm is exposed to intense competition in the textile industry.

### Update

GS reported revenues of Rs.123.23 crore in FY2014-15 as against Rs.85.12 crore in FY2013-14 (refers to financial year, April 01 to March 31) owing to acquisition of new customers. The firm's financial risk profile is marked by debt-to-equity ratio of 0.68 times as on March 31, 2015 and interest coverage ratio of 1.83 times in FY2014-15. The total debt of Rs.12.21 crore (as on March 31, 2014) includes working capital borrowings. The tangible net worth improved to Rs.18.04 crore in FY2014-15 from Rs.11.33 crore in FY2013-14 due to infusion of partner's capital and quasi equity. It includes quasi equity (subordinated to bank debt) of Rs.8.18 crore in FY2014-15 as against Rs.6.63 crore in FY2013-14.

The low profitability of the firm is reflected in the net profit margin of 0.96 per cent in FY2014-15 as against 0.87 per cent in FY2013-14. The firm's operations remained working capital-intensive with gross current assets of 165 days in FY2014-15 as against 155 days in FY2013-14 due to high collections of ~120 days in FY2014-15. The average utilisation of cash credit limit has been moderate at ~70 per cent during the last six months.

### Outlook: Stable

SMERA believes that GS will continue to benefit from its experienced management. The outlook may be revised to 'Positive' if the firm displays good scalability in operations and is able to maintain profitability. Conversely, the outlook may be revised to 'Negative' in case of fall in revenues or profitability or if the firm undertakes debt funded working capital borrowings.

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## Rating Sensitivity Factors

- Sustained improvement in scale of operations and profitability
- Efficient working capital management
- Higher than envisaged working capital borrowings

## About the Firm

Established in 2003 by Mr. Vikram Gajiwala, GS, a Surat-based firm was converted into a partnership entity in 2009. The firm is engaged in the manufacture of bridal and fancy wear.

For FY2014–15, GS reported profit after tax (PAT) of Rs.1.18 crore on operating income of Rs.123.23 crore, as compared with PAT of Rs.0.74 crore on operating income of Rs.85.12 crore in FY2013-14.

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