

March 02, 2016

Facilities	Amount (Rs. Crore)	Ratings
Export Packaging Credit*# \$	2.50	SMERA BBB/Stable (Upgraded from SMERA BBB-/Stable)
Foreign Bill Discounting (Non-LC) *	10.00	SMERA A3+ (Upgraded from SMERA A3)
Foreign Bill Discounting (LC)#	1.50	SMERA A3+ (Upgraded from SMERA A3)
Foreign Exchange Forward	1.20	SMERA A3+ (Upgraded from SMERA A3)
Letter of Credit# ^	3.00	SMERA A3+ (Upgraded from SMERA A3)

* 100% both ways interchangeability from EPC to FBD (Non-LC) limit;

100% both ways interchangeability from EPC limit to LC Limit;

\$ Cash Credit of Rs.0.25 crore - Sub limit under EPC;

^ BG of Rs.0.20 crore – Sub limit under LC limit.

SMERA has upgraded the ratings of the Rs.18.20 crore bank facilities of S.M. Lulla Industries World Wide (SML) to '**SMERA BBB**' (read as **SMERA triple B**) and short-term rating to '**SMERA A3+**' (read as **SMERA A three plus**) from '**SMERA BBB-**' (read as SMERA triple B minus) and '**SMERA A3**' (read as SMERA A three) respectively. The outlook is '**Stable**'. The ratings derive comfort from the firm's experienced management, established relations with customers, healthy revenue growth and moderate financial risk profile. However, the ratings are constrained by the low net worth and susceptibility of the firm's profit margins to volatility in raw material prices.

Update

SML's revenue has grown at a healthy compound annual growth rate (CAGR) of ~20.34 per cent over the past five years. The firm registered revenues of Rs.137.63 crore in FY2015 as compared to Rs.115.48 crore in the previous year. The financial risk profile has been comfortable reflected by interest coverage ratio of 5.05 times and gearing (debt-to-capital ratio) of 1.19 times as on March 31, 2015. The firm's average bank limit utilisation has been moderate at ~74 per cent for the six months ended January 31, 2016. SML's profit margins are highly susceptible to volatility in prices of raw material.

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**Rating Sensitivity Factors**

- Scalability of operations and sustainability of profit margin
- Efficient working capital management

Outlook: Stable

SMERA believes SML will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' if the firm registers sustained improvement in profitability while maintaining healthy revenue growth. Conversely, the outlook may be revised to 'Negative' in case of significant decline in the revenue and profit margins.

About the Firm

SML, established in 1994, is a Chennai-based partnership firm promoted by Mr. S. M. Lulla. The firm is engaged in the manufacture and export of leather garments. It caters to customers in Europe and Canada.

For FY2014–15, SML reported profit after tax (PAT) of Rs.3.94 crore on operating income of Rs.137.63 crore, as compared with PAT of Rs.3.08 crore on operating income of Rs.115.48 crore in FY2013–14. SML's net worth stood at Rs.7.80 crore as on March 31, 2015, as compared with Rs.7.81 crore a year earlier.

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