

March 16, 2015

Facilities	Amount (Rs. Crore)	Rating
Packing Credit	3.00	SMERA A4 (Assigned)
FDBP/FUBP	4.00	SMERA A4 (Assigned)
Forward Contract	0.16	SMERA A4 (Assigned)

SMERA has assigned a short-term rating of '**SMERA A4**' (read as **SMERA A four**) to the Rs.7.16 crore bank facilities of P. K. Udyog (PKU). The rating derives comfort from the firm's experienced management and moderate financial risk profile. However, the rating is constrained by the firm's small-scale operations and low profit margins. The rating is also constrained by the firm's exposure to geographical concentration risk. The rating notes that the firm's profit margins are susceptible to forex fluctuation risk. Moreover, the firm faces intense competition from several players in the cotton industry.

PKU, established in 1985, is a Kolkata-based exporter of raw cotton. PKU benefits from its experienced management. Mr. Pramod Agarwal, promoter of PKU, has around four decades of experience in the cotton industry. PKU's moderate financial risk profile is reflected in gearing (debt-to-capital ratio) of 1.20 times as on March 31, 2014 and interest coverage ratio of 1.22 times in FY2013-14 (refers to financial year, April 01 to March 31). The firm's total debt of Rs.1.59 crore mainly comprises short-term working capital facilities.

PKU has small-scale operations with revenues of Rs.18.33 crore in FY2013-14. The firm operates on low profit margins owing to the trading nature of its business. PKU is exposed to geographical concentration risk; given that the firm derives all its revenues from customers based in Bangladesh. Moreover, PKU's profit margins are highly susceptible to forex fluctuation risk. The firm's operating profit margin declined from 2.62 per cent in FY2012-13 to 1.78 per cent in FY2013-14 on account of forex loss. PKU faces intense competition from several players in the cotton industry.

About the firm

PKU, established in 1985, is a Kolkata-based proprietorship concern promoted by Mr. Pramod Kumar Agarwal. PKU is engaged in trading of raw cotton.

For FY2013-14, PKU reported profit after tax (PAT) of Rs.0.06 crore on operating income of Rs.18.32 crore, as compared with PAT of Rs.0.14 crore on operating income of Rs.12.50 crore in FY2012-13. The firm's net worth stood at Rs.1.33 crore as on March 31, 2014, as compared with Rs.0.81 crore a year earlier.

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SMERA RATINGS LIMITED

P. K. Udyog (PKU)

Rating Rationale

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