

February 18, 2016

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

SMERA has reaffirmed the short-term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs.7.16 crore bank facilities of P. K. Udyog (PKU). The rating is constrained by the small-scale of operations, declining profit margins, below average financial risk profile and exposure to geographical concentration risk. The rating also factors in the susceptibility of profit margins to forex fluctuation and intense competition in the cotton industry. However, the rating derives comfort from the firm's experienced management.

Update

PKU reported revenues of Rs.26.92 crore in FY2015, as compared to Rs.18.32 crore in FY2014 registering a significant improvement of ~46.97 per cent y-o-y. Further, for the period April 2015 to January 2016, PKU reported revenues of Rs.24.09 crore. The EBITDA margin of the firm has declined from 1.78 per cent in FY2013-14 to 0.91 per cent in FY2014-15.

PKU has a below average financial risk profile. The firm's leverage (debt-equity ratio) increased to 3.34 times as on March 31, 2015 as compared to 1.20 times in the previous year. PKU's net worth stands low at Rs.1.14 crore as on March 31, 2015. The firm has advanced Rs.0.70 crore to related parties. The interest coverage ratio stands at 1.31 times in FY2014-15. SMERA believes PKU will maintain a comfortable financial risk profile over the medium term.

Rating Sensitivity Factors

- Scaling up operations while maintaining profit margins
- Efficient working capital management

About the Firm

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

For FY2014-15, PKU reported profit after tax (PAT) of Rs.0.08 crore on operating income of Rs.26.92 crore, as compared with PAT of Rs.0.06 crore on operating income of Rs.18.32 crore in FY2013-14.

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