

Press Release

P. K. Udyog

31 July, 2017



Rating Reaffirmed

| | |
|-------------------------------------|--------------|
| Total Bank Facilities Rated* | Rs. 7.16 Cr. |
| Short Term Rating | SMERA A4 |

*Refer Annexure for details

Rating Rationale

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.

The Kolkata-based P.K. Udyog (PKU), a proprietorship firm established in 1985 by Mr. Pramod Agarwal is a trader of raw cotton. The firm catered to the domestic market for about 10 years and ventured into exports from 1995. At present, PKU procures cotton bales from Andhra Pradesh and Maharashtra and exports the same to Bangladesh.

Key Rating Drivers

Strengths

- **Experienced management**

The proprietor, Mr. Pramod Agarwal has experience of around four decades in the business and is supported by his son, Mr. Prateek Agarwal who manages the finances.

- **Moderate scale of operations**

The scale of operations is small at Rs.37.37 crore despite the firm being in cotton trading since 1985. As informed by the management, the firm earned revenue of Rs.45.00 crore from April, 2016 to March 2017.

Weaknesses

- **Thin and declining margins**

PKU operates on thin profit margins due to the trading nature of its business. The profit margins are susceptible to foreign exchange fluctuation risk since the entire sales is exported. The margins increased from 0.91 in FY2015 to 1.89 in FY2016 on account of decrease in manufacturing cost.

- **Moderate financial risk profile**

The moderate financial risk profile is marked by small net worth of Rs. 1.78 crore as on 31 March, 2016 - an increase from Rs.1.14 crore in FY2015. This is mainly due to retention of current year profits. The gearing stood high at 5.26 times in FY2016, an increase from 3.34 times with rise in short term debt. The interest coverage ratio has been moderate at 2.10 times while the DSCR stood at 2.10 in FY2016. The NCA/TD stood moderate at 0.05 times in FY2016.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm.

About the Rated Entity - Key Financials

The firm reported PAT of Rs 0.40 crore on operating income of Rs.37.37 in FY2016 compared to PAT of Rs.0.08 crore on operating income of Rs.26.92 crore in FY2015. The company reported operating income of Rs.45.00 crore in FY2017 (Provisional).

Status of non-cooperation with previous CRA (if applicable)

NA

Any other information

NA

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|-----------------------|
| 18-Feb-2016 | Packing Credit | Short Term | INR 3 | SMERA A4 (Reaffirmed) |
| | FDBP/FUBP | Short Term | INR 4 | SMERA A4 (Reaffirmed) |
| | Forward Contract | Short Term | INR 0.16 | SMERA A4 (Reaffirmed) |
| 16-Mar-2015 | Packing Credit | Short Term | INR 3 | SMERA A4 (Assigned) |
| | FDBP/FUBP | Short Term | INR 4 | SMERA A4 (Assigned) |
| | Forward Contract | Short Term | INR 0.16 | SMERA A4 (Assigned) |

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|-----------------------|
| PC/PCFC | Not Applicable | Not Applicable | Not Applicable | 3.00 | SMERA A4 (Reaffirmed) |
| FBN/FBP/FBD/PSFC/FBE | Not Applicable | Not Applicable | Not Applicable | 4.00 | SMERA A4 (Reaffirmed) |
| Forward Cover limits | Not Applicable | Not Applicable | Not Applicable | 0.16 | SMERA A4 (Reaffirmed) |

Contacts

| Analytical | Rating Desk |
|--|---|
| Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in | Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in |
| Abhishek Dey Rating Analyst – Rating Operations Tel: 033-66201208 abhishek.dey@smera.in | |

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