



SMERA RATINGS LIMITED

# Shivalik Cotsyn Limited (SCL)

## Rating Rationale

May 08, 2015

Facilities	Amount (Rs. Crore)	Rating
Term Loan	5.20	SMERA B/Stable (Assigned)
Cash Credit	4.00	SMERA B/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA B' (read as SMERA single B)** to the Rs.9.20 crore bank facilities of Shivalik Cotsyn Limited (SCL). The outlook is '**Stable**'. The rating derives comfort from the company's established operations and experienced management. The rating is also supported by the healthy revenue growth registered by the company. However, the rating is constrained by the company's stretched liquidity position. The rating is also constrained by significant fluctuations in the company's profit margins. The rating notes that the company faces intense competition.

SCL, incorporated in 1993, is a Saharanpur-based company engaged in spinning of cotton yarn. SCL benefits from its experienced management. Mr. Subhash Gupta, director of SCL, has around two decades of experience in the textile industry. SCL's revenue increased from Rs.19.75 crore in FY2012-13 to Rs.32.25 crore in FY2013-14 on the back of technology enhancement.

SCL's stretched liquidity position is evidenced by full utilisation of cash credit facility throughout the year. The company's operating profit margin has fluctuated in the range of 8-15 per cent during the period under study. SCL's return on capital employed (RoCE) declined from 10.89 per cent in FY2012-13 to 8.83 per cent in FY2013-14. The company faces intense competition from several players in the textile industry.

### Outlook: Stable

SMERA believes SCL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established operations and experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in earnings while achieving a healthy financial risk profile. The outlook may be revised to 'Negative' in case of deterioration in the company's capital structure or liquidity position.

### About the company

SCL, incorporated in 1993, is an Uttar Pradesh-based company promoted by Mr. Subhash Gupta. SCL is engaged in spinning of cotton yarn. The company has installed capacity of 12,000 spindles. SCL specializes in production of 100% cotton yarn (count range of 20s-40s).

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For FY2013–14, SCL reported profit after tax (PAT) of Rs.0.07 crore on operating income of Rs.32.25 crore, as compared with PAT of Rs.0.05 crore on operating income of Rs.19.75 crore in FY2012–13. The company's net worth stood at Rs.5.97 crore as on March 31, 2014, as compared with Rs.5.66 crore a year earlier.

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