



SMERA RATINGS LIMITED

Sri Rama Cotton Corporation (SRCC)

Rating Rationale

May 11, 2015

Facility	Amount (Rs. Crore)	Rating
Cash Credit	7.00*	SMERA B/Stable (Assigned)

**Includes Packing Credit as a sublimit to the extent of Rs.3.00 crore; FDBP/FUDBP/BP/BD as sublimit to the extent of Rs.3.00 crore; and BPLC as a sublimit to the extent of Rs.1.25 crore*

SMERA has assigned a long-term rating of '**SMERA B**' (read as **SMERA single B**) to the Rs.7.00 crore bank facility of Sri Rama Cotton Corporation (SRCC). The outlook is '**Stable**'. The rating is supported by the firm's experienced management. However, the rating is constrained by the firm's weak financial risk profile. The rating is also constrained by the firm's significant financial exposure to related entities. The rating notes that the firm's operations are susceptible to competitive pressures and regulatory risks.

SRCC, established in 2001, is an Andhra Pradesh-based partnership firm engaged in trading of cotton lint and cotton seeds. SRCC benefits from its experienced management. Mr. P. Raghava Rao, partner of SRCC, has around 35 years of experience in the cotton industry. Mr. P. Vijay Shankar (son of Mr. P. Raghava Rao) has 10 years of experience in the firm's line of business.

SRCC's weak financial risk profile is reflected in high gearing of 7.07 times as on March 31, 2014 and moderate interest coverage of 1.17 times in FY2013-14. The firm's operating profit margin is low at 1.60 per cent in FY2013-14 (2.47 per cent in the previous year). SRCC's net profit margin declined from 0.19 per cent in FY2012-13 to 0.13 per cent in FY2013-14.

SRCC has given advances of Rs.1.31 crore to its group entities. These advances account for ~1.26 times of the firm's tangible net worth as on March 31, 2014.

SRCC faces intense competition from several players in the textile industry. The firm's business is susceptible to unfavourable changes in minimum support price of cotton. SRCC's revenue declined from Rs.55.63 crore in FY2013-14 to ~Rs.12.00 crore (provisional) for the period April 2014 to February 2015.

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Outlook: Stable

SRCC's rating has a 'Stable' outlook. The firm will continue to benefit from its established operations and experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected revenues and cash accruals. The outlook may be revised to 'Negative' in case of deterioration in the firm's financial risk profile.

About the firm

SRCC, established in 2001, is an Andhra Pradesh-based partnership firm promoted by Mr. P. Raghava Rao, Mr. P. Vijay Shankar and Mr. P. Satish. SRCC is engaged in trading of cotton lint and cotton seeds.

For FY2013-14, SRCC reported profit after tax (PAT) of Rs.0.07 crore on operating income of Rs.55.63 crore, as compared with PAT of Rs.0.07 crore on operating income of Rs.39.40 crore in FY2012-13. The firm's net worth stood at Rs.1.04 crore as on March 31, 2014, as compared with Rs.1.03 crore a year earlier.

Contact List:

Media / Business Development	Analytical Contacts	Rating Desk
Virendra Goyal Vice President, SME – Sales Tel: +91-22-6714 1177 Cell: +91 9930074009 Email: virendra.goyal@smera.in Web: www.smera.in	Vinay Chhawchharia Manager – Corporate Ratings Tel: +91-22-6714 1156 Email: vinay.chhawchharia@smera.in	Tel: +91-22-6714 1184 Email: ratingdesk@smera.in

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