

Press Release

Suryalaxmi Cottex Private Limited

July 11, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 11.00 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA B+**' (read as **SMERA B plus**) on the Rs. 11.00 crore bank facilities of Suryalaxmi Cottex Private Limited. The outlook is '**Stable**'.

Suryalaxmi Cottex Private Limited (SCPL) was incorporated in 1997. The company is engaged in the ginning and pressing of cotton. The operations are managed by Mr. Vineet Garg and family. The manufacturing facility located at Abhor, Punjab has an installed capacity of 165 cotton bales per day and 560 quintals of cotton seeds. The company procures raw material i.e. raw cotton from local farmers in Malout, Punjab.

Key Rating Drivers

Strengths

- **Experienced promoters**

The promoter, Mr. Vineet Garg possesses an experience of over two decades in the cotton industry.

- **Working capital cycle**

The working capital cycle registered improvement which is evident from the GCA days of 31 in FY2015-16 as against 128 days in FY2014-15. The improvement is on account of better realisation of debtors at 27 days in FY2015-16 compared to 130 days in FY2014-15. Further, the inventory days of the company stood low and comfortable at 4 days in FY2015-16 as against 0 in FY2014-15. Going forward, the company's ability to maintain efficient working capital cycle is a key credit monitorable factor.

Weaknesses

- **Competitive and fragmented industry**

The cotton industry is highly competitive. Cotton, the main raw material is a seasonal crop and the production of the same is dependent upon the monsoon. The company is exposed to risks related to fluctuations in raw material prices of cotton.

- **Thin profit margins**

The operating margin of the company stands low at 2.73 percent in FY2016 as compared to 2.70 percent in FY15. Further, the profit after tax (PAT) margin of the company stood at 0.31 percent in FY2016 as against 0.26 percent in FY2015. This is mainly due to the limited value addition by the company.

- **Modest financial risk profile**

The financial risk profile is marked by moderate network and debt protection metrics. The net worth base is moderate at Rs.5.87 crore (includes unsecured loans of Rs.4.16 crore from promoters) as on 31 March, 2016 compared to Network of Rs.1.51 crore as on 31st March 2015. SMERA has treated unsecured loans of Rs. 4.16 crore as on 31st March 2016 as quasi equity based on

confirmation from the management that the amount would be retained in the business over the medium term. The interest coverage ratio stood at 1.29 times in FY2016 as against 1.24 times in FY2014-15. SMERA believes that, going forward the company will maintain comfortable financial risk profile over the medium term backed by moderate network and absence of major debt funded capex.

Analytical Approach

In the previous rating exercise, SMERA had consolidated the business and financial risk of Shri Ram Sarup Garg Cotton Mills (Group Company) and Suryalaxmi Cottex Private Limited. However, despite close follow up by SMERA, the management of the company has not provided the requisite information of Shri Ram Sarup Garg Cotton Mills to carry out the surveillance exercise; hence the team has considered the standalone business and financial risk profile of Suryalaxmi Cottex Private Limited.

Outlook: Stable

SMERA believes that SCPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of improvement in profitability while maintaining the working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in debt protection metrics or elongation of working capital cycle. Any unfavourable change in government policies affecting business may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

For FY2015-16, the company reported profit after tax (PAT) of Rs.0.20 crore on operating income of Rs.63.74 crore as compared with PAT of Rs.0.14 crore on operating income of Rs.52.15 crore for FY2014-15. The net worth stood at Rs.5.87 crore as on 31 March, 2016 compared with Rs.1.51 crore a year earlier. The net worth includes quasi equity of Rs.4.16 crore in FY2015-16.

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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
05-Aug-2015	Cash Credit	Long Term	INR 11	SMERA B+ / Stable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not	Not	11.00	SMERA B+ / Stable

		Applicable	Applicable		
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ABOUT SMERA

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