

October 05, 2015

Facilities	Amount (Rs. Crore)	Rating
Term Loan	4.00	SMERA B+/Stable (Assigned)
Cash Credit	5.00	SMERA B+/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA B+**' (**read as SMERA B plus**) to the Rs.9.00 crore bank facilities of Dhara Sree Ginning and Pressing Factory (DSGPF). The outlook is '**Stable**'. The rating is supported by the firm's experienced management and strategic location. However, the rating is constrained by the firm's weak financial risk profile. The rating notes that the firm is exposed to competitive pressures and regulatory risks.

DSGPF, established in 2011, is a Hyderabad-based partnership firm engaged in ginning of cotton. DSGPF benefits from its experienced management. Mr. H. Venkartarami Reddy, partner of DSGPF, has around 25 years of experience in the textile industry. DSGPF's ginning facility is in proximity to several raw material sourcing units.

DSGPF's weak financial risk profile is reflected in high gearing (debt-to-capital ratio) of 2.82 times as on March 31, 2014 and low operating profit margin of 2.45 per cent in FY2013-14 (refers to financial year, April 01 to March 31). DSGPF faces intense competition from several players in the textile industry. The firm's operations are susceptible to unfavourable changes in minimum support price of cotton.

Outlook: Stable

SMERA expects DSGPF to maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected profit margins while achieving sustained improvement in working capital management. The outlook may be revised to 'Negative' in case of decline in the firm's earnings on account of adverse changes in minimum support price of cotton, or in case of stretch in the firm's working capital cycle on account of inventory pile up and delays in debtor realization.

About the firm

DSGPF, established in 2011, is a Hyderabad-based partnership firm promoted by Mr. H. Venkartarami Reddy. DSGPF is engaged in ginning of cotton. The firm started commercial operations in July 2012. DSGPF has a ginning unit in Hyderabad, with installed capacity of 30 cotton gins. The firm caters to customers in Coimbatore.

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For FY2013-14, DSGPF reported profit after tax (PAT) of Rs.0.25 crore on operating income of Rs.61.10 crore, as compared with PAT of Rs.0.02 crore on operating income of Rs.32.23 crore in FY2012-13. The firm's net worth stood at Rs.2.41 crore as on March 31, 2014, as compared with Rs.1.92 crore a year earlier.

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