

**October 28, 2015**

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	4.00	SMERA B/Stable (Assigned)
Cash Credit (Proposed)	2.00	SMERA B/Stable (Assigned)
Term Loans	0.17	SMERA B/Stable (Assigned)
Proposed Facilities	1.83	SMERA B/Stable (Assigned)

SMERA has assigned rating of **SMERA B (read as SMERA B)** to the above mentioned bank facilities of Sri Mallikarjuna Industries (SMI). The outlook is '**Stable**'. The rating is constrained by the firm's low profit margins and weak debt protection metrics especially gearing amidst exposure to agro climatic risk and volatility in raw material prices. The above mentioned risks are partially offset by the extensive experience of the promoters in the cotton industry.

Outlook: Stable

SMERA believes that the firm would continue to benefit from its experienced management and healthy revenue growth. The outlook may be revised to 'Positive' in case of improvement in the firm's profitability while maintaining its working capital cycle. Conversely the outlook may be revised to 'Negative' with lower than expected growth in revenues and profitability, elongation of working capital cycle or unfavourable changes taking place in the climatic conditions impacting the cotton business.

Rating Sensitivity Factors

- Leveraged capital structure
- Healthy profitability with effective working capital management

About the Firm

Established in 2003, SMI is a Karnataka-based partnership firm engaged in the processing of raw cotton. The day-to-day operations are managed by Mr. Bassan Gouda and Mr. Mallan Gouda, the partners of the firm.

For FY2014-15, the firm reported profit after tax (PAT) of Rs.0.17 crore on sales of Rs.64.12 crore as against PAT of Rs.0.09 crore on sales of Rs.50.76 crore in FY2013-14.

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SMERA RATINGS LIMITED

Sri Mallikarjuna Industries (SMI)

*Rating
Rationale*

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