

Press Release

Garg Spinning Mills

February 25, 2017

Rating Assigned

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|-------------------------------------|------------------------------|
| Total Bank Facilities Rated* | Rs. 8.27 Cr. |
| Long Term Rating | SMERA BBB- / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) on the Rs. 8.27 crore bank facilities of Garg Spinning Mills. The outlook is '**Stable**'.

Garg Spinning Mills (GSM) was established in 1994 as a proprietorship concern. However, on 1st October 2015, the constitution was changed to a partnership firm. The firm, promoted by Mr. Rajiv Garg and Mr. Chirag is engaged in the manufacturing of cotton yarn.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

The group has long track record of operations of 21 years in the cotton industry. The group was promoted by Mr. Rajiv Garg and Mr. Reena Garg who possess extensive experience in the cotton industry. Further, Mr. Rajiv Garg is also associated with its eight sister concerns. The business is also joined by second generation of family members.

- Moderate financial risk profile**

The moderate financial risk profile is marked by moderate gearing ratio of 1.22 times in FY2016 as compared to 0.95 times in FY2015. The interest coverage stands at 2.34 times in FY2016 as against 2.18 times in the previous year. The operating margins stand moderate at 7.89 per cent in FY2016 as compared to 5.65 per cent in FY2015. The profitability margin stands low at 0.70 percent in FY2016 as compared to 0.84 percent in FY2015. SMERA also notes that the revenue of the group has declined and stands at Rs.133.09 cr in FY2016 as compared to Rs.184.20 cr in FY2015.

Weaknesses

- Volatility in the prices of cotton**

GSM is engaged in the manufacturing of cotton yarn from raw cotton. The key raw material - cotton is exposed to fluctuations in prices.

- Intense competition**

Textile is a highly competitive industry due to low entry barriers which results in intense competition from both the organised as well as unorganised players.

Analytical Approach

While assigning the rating, SMERA has taken into account the consolidated operational and financial performance of eight entities namely, Garg Spinning Mills, Shiv Cotex India Private Limited (SCIPL), Gupta Spinning Mills, Gupta Spinning and Weaving Mills (GSWM), Gupta Spuntex (GS), Vicky Spinning Mills (VSM), RD Spinning Mills (RDSM), and Shiv Trading Co (STC). The consolidation is in view of the common management, common manufacturing facilities as well as significant operational and financial linkages. Together the group is referred as GSM Group.

Outlook: Stable

SMERA believes that the group will maintain a stable outlook in the medium term owing to the experience of the promoters in the business. The outlook may be revised to Positive in case of improvement in revenue, capital structure and profitability. Conversely, the outlook may be revised to Negative in case of significant deterioration in revenue and or large debt capex undertaken.

About the Group

The group, established in 1994 at Panipat is engaged in the manufacture of cotton yarn. The group consists of eight companies namely Garg Spinning Mills, Shiv Cotex India Private Limited (SCIPL), Gupta Spinning Mills, Gupta Spinning and Weaving Mills (GSWM), Gupta Spuntex (GS), Vicky Spinning Mills (VSM), RD Spinning Mills (RDSM), and Shiv Trading Co (STC).

About the Rated Entity - Key Financials

For FY2016, the firm reported profit after tax (PAT) of Rs.0.93 cr on operating income of Rs.133.09 cr, as compared with PAT of Rs.1.56 cr on operating income of Rs.184.20 cr in FY2015. The net worth stood at Rs.42.41 cr as on March 31, 2016 against Rs.39.60 cr a year earlier.

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

None

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>
- Consolidation Of Companies - <https://www.smera.in/criteria-consolidation.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------|---------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 4.00 | SMERA BBB- / Stable |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 4.27 | SMERA BBB- / Stable |

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