

Press Release

Shreeram & Sons (SAS)

May 23, 2017

Rating Assigned

Total Bank Facility Rated *	Rs.8.50 Crore
Short Term Rating	SMERA A4+ (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.8.50 crore bank facilities of Shreeram & Sons (SAS). The outlook is '**Stable**'.

Established in 2013, Shreeram & Sons is a Bangalore based partnership firm engaged in manufacturing and exporting of readymade garments in the form of shirts, trousers and shorts for men and children. The firm is established by Mr. Bhagwat Sharad Kumar and Mr. V. Ramesh who have extensive experience of nearly 25 years in the garments industry.

List of key rating drivers and their detailed description

Strengths:

Experienced management - The partners- Mr. Bhagwat Sharad Kumar and Mr. V. Ramesh have extensive experience of nearly 25 years in garments industry. The partners in addition are managing Edge Apparels Private Limited engaged in the similar line of business.

Relationship with reputed customers both in overseas and domestic market - The firm has an association with reputed clients namely of Sam & TY LLC, Shinsegae Inc, H & M, Bonobos, ItsNoize, Replay and Chevinion in the overseas market of USA, Italy and South Korea which constituents ~ 70 per cent of its revenue. In the domestic market the firm is catering to the reputed clients such as Redtape and Peter England.

Rise in scale of operations leading to increase in net cash accruals

During the FY 2017, the firm has shown significant improvement in operating income with revenue of ~ Rs 25.67crore (Provisional) as against Rs 8.58 crore in FY 2016, thereby registering a healthy growth of 292 per cent on y-o-y basis. The rise in operating income has resulted in increase in net cash accruals to Rs 0.99 cr in FY2017 (Provisional) as against 0.35 cr in FY2016. The improvement in operating income is on account of executing orders for new customers and change in business model from job work to own production thus providing higher sales realisation. With the firm currently has an order book of around Rs. 17 crores which is likely to be completed by August'17, the scale of operations are likely to further improve over the medium term.

Weaknesses:

Moderate Financial Risk Profile

The moderate financial risk profile of the firm is marked by low net worth base of Rs 4.01 crs in FY 2017 (provisional) as against Rs 2.57 crs in FY 2016. Gearing (debt-to-equity ratio) stands high at 1.73 times in FY 2017 (provisional) as against 2.61 times in FY 2016. The coverage indicators are comfortable with

interest coverage ratio of 2.92 times in FY 2017 (provisional) as against 1.84 times in FY 2016. DSCR stood at 2.46 times in FY2017 (provisional) as against 1.84 times in FY2016.

Working capital intensive nature of operations-

The firm's operations are working capital intensive in nature as reflected in gross current assets (GCA) of 188 days in FY 2017 (provisional) as against 475 days in FY 2016. These high GCA days emanates from inventory holding period and collection period of 104 days and 64 days respectively in FY 2017 (provisional) as against inventory holding period and collection period of 231 days and 203 days respectively in FY2016. The high inventory days are mainly on account of lengthy processing cycle of 80-100 days. The firm on an average utilises around 95 per cent of its working capital limit.

Analytical approach- For arriving at the ratings SMERA has considered the standalone financial performance and financial risk profile of SAS.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook - Stable

SMERA believes SAS will maintain a stable business risk profile over the medium term. SAS will continue to benefit from experienced management and reputed clientele. The outlook may be revised to "Positive" in case the firm registers strong growth in scale of operations while maintaining stability in profit margins and achieving efficient working capital management. The outlook may be revised to 'Negative' in case of deterioration in the firm's scale of operations and profitability or capital structure, or in case of lengthening of working capital cycle.

About the Rated Entity

For FY2016, the firm reported Profit after Tax (PAT) of Rs.0.30 crore on total operating income of Rs.8.58 crore as compared with PAT of Rs.0.14crore on total operating income of Rs.6.26 crore in FY2015. As per provisional figures of FY 2017, the firm achieved Profit after Tax (PAT) of Rs.0.94 crore on total operating income of Rs.25.67

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Facilities	2017				2016		2015		2014	
	Scale	Date	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Packing Credit	LT	22 May 2017	7.50	SMERA A4+ (Assigned)			-	-	-	-
Letter of Credit	LT	22 May 2017	1.00	SMERA A4+ (Assigned)			-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/ Outlook
Packing Credit	NA	NA	NA	7.50	SMERA A4+ (Assigned)
Letter of Credit	NA	NA	NA	1.00	SMERA A4+ (Assigned)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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