

Press Release



Shreeram & Sons

25 May, 2018

Rating Re-affirmed

Total Bank Facilities Rated*	Rs. 16.00 Cr.
Short Term Rating	SMERA A4+ (Re-affirmed)

* Refer Annexure for details

Rating Rationale

SMERA has re-affirmed short-term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs. 16.00 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.

Key Rating Drivers

Strengths

Experienced management

The partners- Mr. Bhagwat Sharad Kumar and Mr. V. Ramesh have extensive experience of nearly 25 years in garments industry.

Relationship with reputed customers both in overseas and domestic market

The firm has reputed client base in the domestic market in the form of Mirza International Limited (Redtape brand). In addition the firm is selling to Penguins Promo Products Limited. The firm is also exporting to some of the reputed global brands like Micheal Kors USA, House of Fazer (HOF), Shinsegae International Inc (South Korea). In the past the firm has supplied to H & M, Bonobos, ItsNoize, Replay and Chevion in the overseas market.

Majority of the sales are being derived from Shinsegae International Inc and Penguins Promo Products Limited.

Weaknesses

Moderate Financial Risk Profile

The moderate financial risk profile of the firm is marked by modest net-worth, high gearing and comfortable coverage indicator. The firm net worth base stands at Rs 3.98 crores as on 31st March'2017 as compare to Rs 2.57 cr in the previous year. The debt- equity stands high at 2.08 times as on 31st March'2017 as compare to 2.61 times in the previous year. The interest coverage ratio stands at 2.13 times in FY 2017 as compare to 1.85 times in the previous year. Going forward, SMERA believes there will be moderation in the financial risk profile on account of rise in the debt levels.

Working capital intensive operations

The firm's operations are working capital intensive in nature as reflected in gross current assets (GCA) of 168 days in 2016-17 as against 489 days in 2015-16. These high GCA days are emanates from inventory holding period of 86 days and 231 days respectively in FY17. The high inventory days are mainly on

account of lengthy processing cycle and in order to mitigate the volatility in fabric prices which constituents ~ 70 per cent of its revenue.

Modest scale of operations

During the FY 2016-17, the firm's operating income has improved to Rs 30.54 cr as against Rs 8.58 crore in FY 2015-16, though it remains at the moderate level. The improvement in operating income is on account of executing orders for new customers and change in business model from job work basis to own production which provides higher sales realization. During FY 2017-18, the firm has achieved revenue of Rs 40.39 cr till 31st March'18 (prov).

Intense competition from organized and unorganized players in the market

The firm faces intense competition from organized and unorganized players in the local market.

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 its association relationship with reputed customer base. 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 - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	30.54	8.32	6.26
EBITDA	Rs. Cr.	1.45	0.27	0.31
PAT	Rs. Cr.	0.47	0.20	0.11
EBITDA Margin	(%)	4.73	3.28	4.91
PAT Margin	(%)	1.53	2.46	1.77
ROCE	(%)	12.93	11.28	12.18
Total Debt/Tangible Net Worth	Times	2.08	2.61	12.64
PBDIT/Interest	Times	2.13	1.85	2.31
Total Debt/PBDIT	Times	8.64	10.75	114.10
Gross Current Assets (Days)	Days	168	489	94

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

None

Analytical Approach

SMERA has taken a standalone view of the business and financial risk profile of SAS.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.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
23 rd May- 2017	Packing Credit	Short Term	7.50	SMERA A4+ (Assigned)
	Letter of Credit	Short Term	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 (Rs. Crore)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA A4+ (Re-affirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4+ (Re-affirmed)

Contacts

Analytical	Rating Desk
Suman Chowdhury President – SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in
Aniruddha Dhar Rating Analyst Tel: 033-66201209 aniruddha.dhar@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the

data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.

