

## Press Release

### GAJRAJ TEXTILES LIMITED

04 December, 2017

### Rating Assigned



|                                     |                            |
|-------------------------------------|----------------------------|
| <b>Total Bank Facilities Rated*</b> | Rs. 27.00 Cr.              |
| <b>Long Term Rating</b>             | SMERA B+ / Outlook: Stable |

\* Refer Annexure for details

### Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA B plus**) on the Rs. 27.00 crore bank facilities of GAJRAJ TEXTILES LIMITED. The outlook is '**Stable**'.

Gajraj Textiles Limited (GTL), incorporated in Feb, 2014, was promoted by Mr. Hem Raj, Mr. Bhanu Partap Singla, Mr. Anil Kumar Gupta and Mr. Pankaj Gupta. The promoters possess extensive experience in the cotton yarn industry and plan to set up a cotton yarn manufacturing unit at Patiala, Punjab.

### Key Rating Drivers

#### Strengths

- **Easy availability of raw material**

The raw materials - raw cotton, comber noils and useable cotton waste are easily available since Punjab is among the major cotton producing states of India.

- **Experienced management**

The promoters of GTL possess extensive experience in the textile industry, through an existing spinning unit, Gupta Threads Limited. Mr. Hem Raj is associated with Gupta Threads Limited as a Director and the company is expected to benefit from the established relations of the promoters with customers and suppliers.

#### Weaknesses

- **Intense competition in the industry**

GTL is engaged in the manufacture of low count cotton yarn, which is an intensely competitive segment. The commoditised nature of the segment is expected to limit expansion and impact margins.

- **Project related risk**

GTL plans to set up a cotton spinning unit at Patiala, Punjab at a total cost of Rs. 39.00 crore to be funded by equity share capital of Rs.13.00 crore and term loan of Rs.26.00 crore. The commercial operations are expected to start from Oct 2018. The capacity utilisation is expected to be around 70 per cent in the first year. The project is in the initial stage. Construction has already commenced with 40 percent work being completed and equity of Rs. 6.5 being already available to the company. The project is expected to be completed by October, 2018 and commercial operations are to commence thereafter. However, the project is exposed to time and costs overruns. Any delay in implementation or lower than expected off take is likely to impact cash accruals and consequently the debt servicing ability of GTL.

- **Margins susceptible to volatility in cotton prices**

Since cotton is an agricultural commodity, the prices are influenced by various factors such as demand-supply gap, government policies on MSP, import/export etc. The company plans to procure raw material from the domestic market. The margins will continue to remain susceptible to volatility in the prices of cotton.

## Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company.

## Outlook: Stable

SMERA believes that the outlook on GTL's rated facilities will remain stable over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case of timely completion of the project without cost overruns. Conversely, the outlook may be revised to 'Negative' in case of significant project delays or lower than expected accruals in the first year of operations.

## About the Rated Entity - Key Financials

None

## 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>

## 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   |
|-------------------------|------------------|----------------|----------------|-------------------------------|-------------------|
| Proposed Long Term Loan | Not Applicable   | Not Applicable | Not Applicable | 27.00                         | SMERA B+ / Stable |

## Contacts

| Analytical   | Rating Desk   |
|--|---|
| <p>Vinayak Nayak<br/>Head – Ratings Operations<br/>Tel: 022-67141190<br/><a href="mailto:vinayak.nayak@smera.in">vinayak.nayak@smera.in</a></p> <p>Abhishek Verma<br/>Manager - Rating Operations<br/>Tel: 022-67141115<br/><a href="mailto:abhishek.verma@smera.in">abhishek.verma@smera.in</a></p> | <p>Varsha Bist<br/>Manager - Rating Desk<br/>Tel: 022-67141160<br/><a href="mailto:varsha.bist@smera.in">varsha.bist@smera.in</a></p> |

## 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](http://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](http://www.smera.in)) for the latest information on any instrument rated by SMERA.*