

Press Release

CHEER SAGAR

02 January, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 12.50 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Pls Note: This is further to the rationale dated 6th Dec 2017 of Cheer Sagar in which the Proposed Facility of Rs.0.35 crore was inadvertently omitted in the Annexure. The same has been added herein.

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB+**' (**read as SMERA double B plus**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 12.50 crore bank facilities of CHEER SAGAR. The outlook is '**Stable**'.

Established in 1991, Cheer Sagar (CS) is a Jaipur-based partnership firm engaged in the manufacture and export of readymade garments. The firm, led by Partners, Mr. Ravi Poddar, Mrs Sujata Poddar, Mr. Arnav Poddar and Mr. Tarin Poddar has installed capacity of 24 lakh pieces per annum. The firm exports its products to Japan, Brazil, France among others. The manufacturing facility is located at Jaipur.

Key Rating Drivers

Strengths

- Experienced management**

CS commenced operations in 1991. The day-to-day operations are led by Mr Ravi Poddar and others with more than two decades of experience in the textile industry.

- Moderate financial risk profile**

The financial risk profile is moderate marked by net worth of Rs.16.36 crore as on 31 March, 2017 as against Rs. 16.56 crore as on 31 March, 2016. The networth includes unsecured loan of Rs. 1.26 crore treated as quasi equity as on 31 March, 2017. The gearing (debt-to-equity ratio) stood at 0.58 times as on 31 March, 2017 compared to 0.51 times in the previous year. The total debt of Rs. 9.57 crore, consists of working capital borrowings of Rs. 5.53 crore and term loan of Rs. 2.14 crore as on 31 March, 2017. The interest coverage ratio (ICR) stood comfortable at 3.82 times in FY2017 as against 4.95 times in FY2016. In FY2017, the net cash accruals to total debt (NCA/TD) stood at 0.32 times compared to 0.35 times in FY2016.

Weaknesses

- Moderate scale of operations, customer concentration risk**

The operations are at a moderate level. The firm registered revenue of Rs.43.99 crore for FY2016-17 compared to Rs.39.04 crore for FY2015-16. Since the firm generates about 70 per cent revenue from its top 10 customers, it is exposed to customer concentration risk. From April to October 2017, the firm registered revenue to the tune of Rs.20.00 crore (Provisional). The operating margins (EBIDTA) stood at 10.84 percent for FY2017 compared to 12.24 percent for FY2016. Further, the Profit after tax (PAT) margin stood at 3.51 per cent in FY2017 as against 4.59 per cent in FY2016. The profitability is susceptible to volatility in raw material prices and forex rates.

- **Working capital intensive operations**

CS has working capital intensive operations. The Gross Current Assets (GCA) stood at 116 days in FY2017 as against 131 days in FY2016. This is on account of reduced debtors of 46 days in FY2017 as against 64 days in FY2016. The firm has high inventory holding of 66 days in FY2017 and 61 days in FY2016. The firm enjoys extended credit from its suppliers due to long standing relations which moderates the working capital requirement. The average cash credit utilisation stood at ~60 per cent for the six months ended 30 October, 2017.

- **Susceptibility to fluctuations in raw material prices and forex rates**

The major raw material (fabric) is procured from mills in India. Fabric prices are highly volatile thus the profit margins are exposed to volatility in raw material prices. The firm generates 100 per cent of its revenue from export sales which exposes it to foreign exchange fluctuation risk. However, the same is mitigated to an extent since the firm hedges 70 per cent of its exposure.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of Cheer Sagar.

Outlook: Stable

SMERA believes that the outlook of CS will remain stable over the medium term driven by its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case the firm achieves higher than expected revenue and improvement in profitability while maintaining its financial risk and liquidity profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration of the financial profile due to lower than expected accruals or higher than expected debt funded capex plan.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	43.99	39.04	49.43
EBITDA	Rs. Cr.	4.77	4.78	7.60
PAT	Rs. Cr.	1.55	1.79	3.58
EBITDA Margin	(%)	10.84	12.24	15.37
PAT Margin	(%)	3.51	4.59	7.24
ROCE	(%)	13.99	16.99	65.83
Total Debt/Tangible Net Worth	Times	0.32	0.90	1.17
PBDIT/Interest	Times	3.82	4.95	6.81
Total Debt/PBDIT	Times	1.63	1.78	0.84
Gross Current Assets (Days)	Days	116	131	92

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

CARE has been seeking information from Cheer Sagar (CHS), to monitor the rating vide e-mail communications/ letters dated May 04, 2017, May 25, 2017, July 06, 2017, July 19, 2017, August 08, 2017, August 21, 2017 September 05, 2017, September 22, 2017, October 04, 2017 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Further, CHS has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on CHS's bank facilities will now be denoted as CARE BBB-/CARE A3; ISSUER NOT COOPERATING.

Any other information

Not Applicable

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.smerra.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
Term loans	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA BB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.05	SMERA BB+ / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	9.60	SMERA A4+
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	0.35	SMERA BB+ / Stable

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ABOUT SMERA

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