

April 29, 2013

| Facilities  | Amount (Rs. Crore) | Rating                  |
|-------------|--------------------|-------------------------|
| Cash Credit | 1.45               | SMERA B/Stable/Assigned |
| Term Loan   | 17.88              |                         |

SMERA has assigned a rating of '**SMERA B**' (read as **SMERA single B**) to Rs. 19.33 crore long term facilities of Suryshree Wellness Private Limited (SWPL). The outlook is 'Stable'. The rating of SWPL is constrained largely due to project implementation risk involved with the setting up of manufacturing unit of Autoclaved Aerated Concrete (AAC) blocks, nascent stage of the company as manufacturing operations are yet to begin and lack of promoters' experience in this field. The rating also factors the expected pressure on margins due to intense competition from the established players manufacturing AAC blocks and from the cheaper substitutes available in the market. However, the rating derives support from the increasing acceptance of AAC blocks over clay bricks in the construction industry due to its advantages and technical assistance availed by the company from established machinery suppliers and consultants.

SWPL is in the process of setting up the infrastructure to manufacture AAC blocks which find application in the construction industry and is a replacement for traditional clay bricks. The proposed facility of 48,200 square feet is being set up in Chiyada, Gujarat and is currently at an advanced stage of completion (60% work is completed as certified by the architect). Considering the pace of work at the premises, the project is likely to commence commercial production in June 2013, which is 4 months earlier than the projected commencement in October, 2013. However, SWPL is yet to receive approvals to draw ground water at the site (as on date the application has been made and is pending with the authorities); similarly, conversion of land to non-agricultural land is also under process. Hence any delays in receipt of these approvals/clearances could lead to time and cost overrun. The plant is expected to have a production capacity of 150,000 cubic meters per annum and is expected to operate at 65% of its installed capacity in its first 2 years of operations.

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Initially SWPL intends to cater to the growing market in Gujarat by approaching construction companies with focus on Tier II cities registering higher growth in infrastructure projects. Simultaneously, it also plans to set up a distribution network to cater to the western as well as the central parts of India. Further, SWPL has also identified suppliers of major raw materials viz. fly ash, coal and cement, in the vicinity of its manufacturing unit which could reduce freight costs for the company. However, as on date, the management is yet to enter into any agreement with the customers or suppliers.

The project cost of Rs. 24.88 crore, after factoring contingencies, is proposed to be funded by term loan of Rs. 17.88 crore, unsecured loan of Rs. 3.00 crore and equity of Rs. 4.00 crore at a debt equity of 2.55 times (considering unsecured loans as quasi equity). The repayment of the term loan is set to begin from April, 2014, though the interest is already being serviced from December, 2012. There has been no project delays leading to cost overruns; however due to un-hedged import of the machinery, SWPL had to incur forex losses on account of such imports; though these forex losses were provided for in its contingent liabilities.

AAC blocks are introduced as a replacement for the traditional clay bricks and attract premium pricing. However due to its premium pricing, low awareness and higher competition from traditional products, the market penetration of this product, in the short term, appears to be limited in scope. Due to this limitation, SWPL is expected to face difficulty in market penetration which, in turn, might exert pressure on the margins of the company & the same is indicated in the projections of the company with higher revenue growth but year on year decline in operating margins. However with enhanced benefits and longevity associated with AAC blocks, the product is likely to find gradual acceptance in future with its customers.

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### Outlook: Stable

SMERA believes that SWPL will benefit from its operational base viz. Gujarat due to the growing infrastructure development in the region and proximity to other growing markets such as Mumbai and Rajasthan. Similarly growing awareness amongst the construction industry about the advantages of AAC blocks would only benefit the company in its future financial performance. However, the company's ability to receive timely approvals, scale up its operations by developing a good client base, maintain profitability and comfortable liquidity position remains the key rating sensitivities.

### About Suryshree Wellness Private Limited

SWPL was incorporated in the year 2011 and is in the process of setting up manufacturing facility of AAC blocks. The project is expected to start commercial production in June 2013. SWPL has its registered and administrative office at Ahmedabad and its factory site is at Chiyada, Gujarat.

The management team viz. Mr. Adesh K. Patel and Mrs. Kruti A. Patel have limited experience in this field and have therefore entered into a technology transfer agreement with a China based supplier of AAC manufacturing plant. They have also hired a manager having experience of 19 years in manufacturing and project implementation of AAC blocks.

SWPL is a member of the Bidiwala Group Companies which comprises of Parbhudas Kishordas Tobacco Products Private Limited, JP Tobacco Products Private Limited and Helios Pharmaceuticals.

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