

April 30, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	18.00	SMERA B/Stable(Assigned)
Overdraft Term Loan	1.78	SMERA B/Stable (Assigned)

SMERA has assigned a long-term rating of '**SMERA B' (read as SMERA Single B)** to the Rs.19.78 crore bank facilities of Shri Ram Sarup Garg Cotton Mills (SRSGCM). The outlook is '**Stable**'. The rating is constrained by the firm's low profit margins and weak debt coverage indicators amidst intense competition prevalent in the cotton ginning industry. The rating is also constrained by the susceptibility of the firm's profit margins to raw material price volatility. However, the rating is supported by the firm's healthy revenue growth, reputed clientele and experienced management.

SRSGCM, established in 1996, is a Punjab-based firm engaged in ginning cotton. SRSGCM is also involved in trading of raw cotton since FY2013-14 (refers to financial year, April 01 to March 31). The firm has weak debt protection metrics as reflected in high leverage of 11.72 times as on March 31, 2013 and low interest coverage ratio of 1.30 times in FY2012-13. SRSGCM has weak bargaining power with its customers owing to intense competition prevalent in the cotton ginning industry. The firm's profit margins are susceptible to volatility in prices of raw cotton.

SRSGCM registered healthy growth in revenues during the FY2013-14. The firm booked revenues of Rs.203 crore during April 2013 to March 2014 (provisional figures), as compared with revenues of Rs.100.21 crore during FY2012-13. SRSGCM caters to large spinning units in Punjab. The firm benefits from its experienced management. Mr. Vinod Kumar Garg, partner of SRSGCM, has around two decades of experience in the cotton ginning industry.

Outlook: Stable

SMERA believes that SRSGCM will continue to benefit over the medium term from its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case the firm achieves a significant improvement in its capital structure. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability, or in case of unfavourable changes in government policies applicable to the firm's business.

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About the firm

SRSGCM, established in 1996, is a Punjab-based firm promoted by Mr. Satish Kumar Garg, Mr. Vinod Kumar Garg, Mr. Satpal Garg and Mrs. Madhu Garg. SRSGCM is involved in ginning cotton. The firm has three ginning units with a combined installed capacity of 660 bales per day.

For FY2012-13, SRSGCM reported PAT of Rs.0.37 crore on operating income of Rs.100.21 crore, as compared with PAT of Rs.0.26 crore on operating income of Rs.31.64 crore for FY2011-12. The firm registered revenues of Rs.203.00 crore during April 2013 to March 2014 (provisional figures). SRSGCM's net worth stood at Rs.3.11 crore as on March 31, 2013, as compared with Rs.2.59 crore a year earlier.

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