



SMERA RATINGS LIMITED

Shri Ram Sarup Garg Cotton Mills (SRSGCM)

Rating Rationale

July 21, 2015

Facility	Amount (Rs. Crore)	Rating
Cash Credit	20.00	SMERA B+/Stable (Upgraded from SMERA B/Stable)

SMERA has upgraded its long term rating on the Rs.20.00 crore bank facilities of Shri Ram Sarup Garg Cotton Mills (SRSGCM, part of Shri Ram Sarup Group) to **'SMERA B+' (read as SMERA B plus)** from **'SMERA B' (read as SMERA B)**. The outlook is **'Stable'**.

For the rating process, SMERA has consolidated the business and financial risk profiles of SRSGCM and Suryalaxmi Cottex Private Limited (SCPL), another group entity, together referred to as Shri Ram Sarup Group (SRSG) due to the common management and strong operational and financial linkages between the two entities.

The upgrade reflects the consistent improvement in the group's scale of operations and leverage. However, the rating remains constrained by risks related to customer concentration, low profitability and group's exposure to agro climatic conditions.

Update

SRSG has shown consistent revenue growth over the years registering around Rs.509 crore (provisional) in FY2014-15 from Rs.129.50 crore in FY2012-13. The group's debt-to-capital ratio has improved to 0.95 times (provisional) in FY2014-15 from 2.25 times during the previous year. The total debt of Rs.54.02 crore (provisional as on March 31, 2015) includes non-interest bearing unsecured loans of Rs.24.76 crore from promoters, friends and relatives. These unsecured loans are subordinated to bank debt. SMERA has treated such unsecured loans as quasi-equity.

The group's rating is constrained on account of customer concentration risk with around 95 per cent of revenues being generated from a single customer - SEL Manufacturing Company Limited. Also, the group's profitability has declined to 0.83 per cent (provisional) in FY2014-15 from 1.42 per cent in FY2012-13, due to a shift to trading of cotton bales from cotton ginning. Further, the group is exposed to agro climatic risk.

Outlook: Stable

SMERA believes that SRSG will continue to benefit over the medium term from its experienced management and long track of operations. The outlook may be revised to 'Positive' in case of improvement in the profitability while maintaining the working capital cycle and customer diversification. Conversely the outlook may be revised to 'Negative' in case of lower than expected

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growth in revenues and profitability, elongation of working capital cycle or unfavourable changes in government policies affecting the group's business.

About the Group

Shri Ram Sarup Garg Cotton Mill (SRSGCM) was incorporated in 1996, by Mr. Vinod Kumar Garg and Mr. Satpal Garg. A Punjab-based ginning firm, SRSGCM has three ginning units at Malout, Muktsar and Gidderbaha with a total installed capacity of 660 bales per day. The firm was into the ginning business up to FY2011-12 after which it ventured into cotton trading.

Suryalaxmi Cottex Private Limited (SCPL), incorporated in 1997 is engaged in the business of ginning and pressing of cotton at its manufacturing facility in Abhor (Punjab). The total installed capacity of the firm is 165 cotton bales per day and 560 quintals of cotton seeds. The operations of the company are managed by the Garg family.

For FY2013-14, SRSG reported profit after tax (PAT) of Rs.0.83 crore on operating income of Rs.235.84 crore as compared with PAT of Rs.0.46 crore on operating income of Rs.129.50 crore for FY2012-13. For FY2014-15, the group reported PAT of Rs.1.04 crore (provisional) on operating income of Rs.508.57 crore (provisional). The net worth stands at Rs.30.75 crore (provisional) as on March 31, 2015 as compared with Rs.28.72 crore a year earlier.

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