

### Laxmi Cotton Industries: Assigned

Facility	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	5.00	SMERA B+/Stable (Assigned)

SMERA has assigned rating of '**SMERA B+**' (**read as SMERA B plus**) to the Rs.5.00 crore bank facility of Laxmi Cotton Industries (LCI). The outlook is '**Stable**'.

The rating derives comfort from the experienced management and proximity to raw material sources. However, the rating is constrained by the highly fragmented cotton ginning industry, volatility in raw material prices and changing government regulations. The rating also factors in the below average financial risk profile and thin profit margins.

LCI is headed by Mr. Babubhai Patel (Promoter) who possesses over two decades of experience in the textile industry. The firm's financial risk profile is marked by low net worth of Rs.2.25 crore as on March 31, 2015 together with ICR and DSCR at 1.19 times as on March 31, 2015. Further, the gearing has been moderate at 2.24 times as on March 31, 2015.

Besides, the profit margins are susceptible to raw material price fluctuations. The operating margins have shown uneven trends in the past. In FY2014, the EBITDA stood at 1.63 per cent and rose to 3.17 per cent in FY2015 declining to 1.78 per cent as per FY2016 provisional financials. The PAT margin was 0.33 per cent in FY2014 which fell to 0.21 per cent in FY2015.

#### Rating Sensitivity Factors

- Volatility in raw material prices impacting profitability
- Sustainable and substantial growth in revenues with improvement in profitability
- Improvement in the financial risk profile

#### Outlook-Stable

SMERA believes that LCI will continue to benefit over the medium term from its established presence in the fabric industry and experienced management. The outlook may be revised to 'Positive' if the scale of operations increases substantially while also improving its operating profitability and financial risk indicators. Conversely, the outlook may be revised to 'Negative' if the profit margins decline in the medium term due to fluctuations in raw material prices and deterioration in the financial risk profile.

#### Criteria to arrive at the rating

- Manufacturing Entities

#### About the Firm

LCI, a partnership firm was established in 2005 by Mr. Babubhai, Mr. Ambalal B Patel, Mr. Jayesh A Patel and others. The firm, based out of Mehesana, Gujarat manufactures cotton bales and kapasiya. The installed manufacturing capacity stands at 10 cotton bales and 400 quintal of kapasiya per day.

In FY2014-15, the firm reported PAT (profit after tax) of Rs.0.05 crore on operating income of Rs.24.73 crore.

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