

Ganesh Cotton Industries: Assigned

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	4.50	SMERA B/Stable (Assigned)
Term Loan	1.65	SMERA B/Stable (Assigned)
Bank Guarantee	0.10	SMERA A4 (Assigned)

SMERA has assigned long term rating of '**SMERA B**' (**read as SMERA B**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) to the Rs.6.25 crore bank facilities of Ganesh Cotton Industries (GCI). The outlook is '**Stable**'.

The ratings derive comfort from the experienced management and proximity of manufacturing unit to raw material sources. However, the ratings are constrained by the below average financial risk profile, the highly fragmented cotton ginning industry and susceptibility of profit margins to volatility in raw material prices. The ratings also factor in the changing government regulations.

GCI is headed by Mr. Vitthalbhai Jeevan Patel (Promoter) who possesses over two decades of experience in the textile industry. The ginning unit is located in Gujarat, one of the cotton producing states which ensures timely supply of raw material. The firm's financial risk profile is marked by low net worth of Rs.1.79 crore as on 31 March 2016 (Provisionals) and Rs.0.56 crore as on March 31, 2015. The ICR stood at 2.51 times as on March 31, 2016 (Provisionals) as compared to (0.40) times in FY2015. Further, the gearing has been high at 8.43 times as on March 31, 2015 while it has declined to 2.38 times as on 31 March, 2016 (Provisional).

However, 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 2.05 per cent and declined to (1.68) per cent in FY2015 to rise again to 5.54 per cent as per the provisional financials for FY2016. The PAT margin was (0.01) per cent in FY2014 which fell to (5.33) per cent in FY2015. However, PAT margins increased and stand at 2.04 per cent in FY2016 (Provisionals).

Further, GCI operates in a highly fragmented industry with large numbers of unorganised players. Also, cotton prices are highly regulated by the government through MSP (Minimum Support Price). Any adverse movement of cotton prices further impacts the profitability of the firm.

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 GCI will 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 firm's 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 due to fluctuations in raw material prices and deterioration in the financial risk profile.

Criteria to arrive at the ratings

- Manufacturing Entities

About the Firm

The Gujarat-based GCI, a partnership firm was established in 2013 by Mr. Vitthalbhai Jeevan Patel and others. The firm is engaged in the manufacturing (Ginning and pressing) of cotton bales and has an installed capacity of 12636 mt per annum.

In FY2015-16, the firm reported net profit after tax (PAT) of Rs.0.37 crore on operating income of Rs.18.02 crore as against net loss of Rs.1.04 crore on operating income of Rs.19.57 crore in the previous year.

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ABOUT SMERA

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