

Press Release

Shri Krishna Ginning and Pressing

December 02, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs.6.30 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB-**' (**read as ACUITE double B minus**) from '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs.6.30 crore bank facilities of Shri Krishna Ginning & Pressing. The outlook is '**Stable**'.

The rating upgrade is in view of consistent improvement in operating performance marked by improvement in its revenues and profitability margins while maintaining its financial risk profile.

SKGP is a partnership firm, established by Mr. Deepak Batra, Ms. Madhu Batra, Mr. Suraj Kumar Batra and Ms. Priti Suraj Batra in 2014. The firm is engaged in ginning and pressing of cotton. The manufacturing facility is located at Wardha (Maharashtra) with installed capacity of 250 bales per day.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SKGP to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and improving business risk profile**

The Partners, Mr. Deepak Batra, Ms. Madhu Batra, Mr. Suraj Kumar Batra and Ms. Priti Suraj Batra, have experience of more than a decade in cotton industry through other firms. The experience helped to develop good understanding of local markets and establish a healthy relationship with customers and farmers.

SKGP's operating income witnessed a compound annual growth rate (CAGR) of 26 per cent over the past three years through FY2019 at Rs.64.20 crore. Moreover, the profitability margins have also improved. EBITDA margins and PAT margins increased to 2.53 percent and 1.75 percent in FY2019 from 1.72 percent and 0.49 percent in FY2018, respectively. Acuité believes that SKGP will continue to benefit from partners' extensive experience in the cotton industry and its improving business risk profile over the medium term.

- **Moderate financial risk profile**

The financial risk profile of the firm is moderate marked by moderate net worth, gearing and moderate debt protection metrics. The net worth of the firm stood moderate at Rs.6.59 crore in FY2019 increased from Rs.3.29 crore in FY2018, mainly on account of retention of current year profit. The gearing of the firm improved to 0.82 times as on 31 March, 2019 from 1.73 times as on 31 March, 2018. The total debt of Rs.3.35 crore as on 31 March, 2019 consist of short term debt from bank of Rs.3.81 crore and term loans of Rs.1.73 crore. The interest coverage ratio (ICR) of the firm stood at 4.58 times for FY2019 as compared to 2.41 times for FY2018. The debt service coverage ratio (DSCR) of the firm stood at 2.01 times in FY2019 as compared to 1.56 times in FY2018. The net cash accruals against the total debt stood moderate at 0.26times in FY2019 as compared to 0.11 times in FY2018.

Acuité believes that the financial risk profile is expected to be at similar levels over the medium term.

Weaknesses

- **Agro climatic risks**

Cotton, which is the main raw material required for ginning, is a seasonal crop and production of the same is highly dependent upon monsoon. Thus, inadequate rainfall may affect the availability of raw cotton in adverse weather conditions.

- **Competitive and fragmented business**

The cotton industry is highly competitive with multiple players coupled with low entry barriers resulting into intense competition from both the organised as well as unorganised players.

- **Capital withdrawal risk**

SKGP is exposed to risk of capital withdrawal considering its partnership constitution. However, there were significant withdrawals observed during the period under study.

Rating Sensitivities

- Withdrawal of partner's capital will lead to weakening of financial risk profile.
- Substantial improvement in scale of operation while maintaining profitability margins over the medium term.

Material covenants

None

Liquidity Position: Adequate

Liquidity of SKGP is adequate marked by sufficient net cash accruals of Rs.0.62-1.40 crore against repayment obligation of Rs.0.50 in FY2019. The cash accruals of the firm are expected to remain on the same level with low repayment obligations of Rs.0.50-0.60 over the near term. The firm's operations are well managed marked by gross current asset (GCA) days of 52 in FY2019. Working capital borrowings in the firm remained utilised at around 90 percent during the peak season. The firm maintains unencumbered cash and bank balances of Rs.1.57 crore as on March 31, 2019. The current ratio of the firm stood at 1.47 times as on March 31, 2019. Acuité believes that the liquidity of the firm will remain adequate over near to medium term on account of stable net cash accruals, low repayment obligations and absence of any debt funded capex plans.

Outlook: Stable

Acuité believes SKGP will maintain a 'Stable' outlook in the medium term on account of its experienced management and comfortable working capital cycle. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues and net cash accruals while improving profit margins and improvement in capital structure. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected revenues.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	64.20	58.56	40.75
EBITDA	Rs. Cr.	1.63	1.00	1.54
PAT	Rs. Cr.	1.13	0.29	0.80
EBITDA Margin	(%)	2.53	1.72	3.78
PAT Margin	(%)	1.75	0.49	1.96
ROCE	(%)	14.45	7.47	14.47
Total Debt/Tangible Net Worth	Times	0.82	1.73	2.21
PBDIT/Interest	Times	4.58	2.41	3.52
Total Debt/PBDIT	Times	3.02	5.36	4.62
Gross Current Assets (Days)	Days	52	38	101

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Jan-2019	Cash Credit	Long Term	5.00	ACUITE B+ / Stable (Reaffirmed)
	Term Loan	Long Term	1.30	ACUITE B+ / Stable (Reaffirmed)
14-Oct-2017	Cash Credit	Long Term	3.50	ACUITE B+ / Stable (Reaffirmed)
	Term Loan	Long Term	2.46	ACUITE B+ / Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	0.34	ACUITE B+ / Stable (Assigned)
04-Oct-2016	Term Loan	Long Term	2.80	ACUITE B+ / Stable (Assigned)
	Cash Credit	Long Term	2.70	ACUITE B+ / Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB-/Stable (Upgraded from ACUITE B+/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.30	ACUITE BB-/Stable (Upgraded from ACUITE B+/Stable)

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About Acuité Ratings & Research:

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