Press Release

Shri Krishna Ginning & Pressing

March 02, 2021

Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs. 7.80 Cr. (Enhanced from Rs.6.30 Cr.)
Long Term Rating	ACUITE BB- / Outlook: Stable (Reaffirmed & Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BB-**' **(read as ACUITE Double B Minus)** on the Rs. 6.30 Cr bank facilities of Shri Krishna Ginning And Pressing (SKGP). Acuité has assigned its long-term rating of '**ACUITE BB-**' **(read as ACUITE Double B Minus)** on the Rs. 1.50 Cr bank facilities of the firm. The outlook is **'Stable'**.

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 an installed capacity of 250 bales per day.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management
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. 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 profile**
SKGP's financial risk profile is moderate, marked by moderate capital structure and debt protection metrics. SKGP has moderate capital structure with modest net worth of Rs. 4.88 Cr as on March 31, 2020 against Rs.6.59 Cr as on previous year end. The networth eroded owning to capital withdrawal by partners to the extent of Rs.1.71 Cr. The firm's gearing deteriorated to 1.15 times against 0.82 times as on previous year despite generating decent profitability. This was due to withdrawal of capital. SKGP's debt protection metrics are moderate marked by interest coverage and Net cash accruals to total debt (NCATD) of 6.04 times and 0.24 times as on March 31, 2020 against 4.58 times and 0.26 times as on previous year end. Acuité believes that the capital structure and the debt protection metrics are expected to improve over the medium term backed by no debt-funded capex plans, repayment of its existing loans and improving net cash accruals. Further withdrawal of capital by partners will remain key monitorable.

- **Efficient Working capital management**
SKGP's working capital cycle is marked by moderate gross current asset (GCA) days in the range of 38-58 days over the last 3 years ending March 31, 2020. The GCA days are marked by moderate inventory days and debtor days. The firm had inventory and debtor levels of 17 and 38 days as on March 31, 2020 vis-à-vis 24 days and 18 days as on previous year ending, respectively. These are partially offset by high creditor days of 33 days as on March 31, 2020. The moderate GCA cycle has led to moderate utilization of 40 percent on the bank lines of Rs.6.50 Cr over the past 12 months ending December, 2020. Acuité believes that SKGP's working capital cycle will remaine efficiently managed over the medium term.

Weaknesses

- **Modest scale of operations and operating margins**
SKGP's scale of operations is modest at Rs.53.66 Cr with operating margins at 2.64 percent in FY2020. The scale has been fluctuating with total operating income of Rs.64.20 Cr in FY2019 and Rs.58.56 Cr in FY2018. The operating margins have been improving through from 1.72 percent in FY2018 to 2.64 percent in FY2020. Acuité believes that SKGP's scale will improve over the medium term post FY2021 with improving demand with operating margins remaining stable.

- **Agro climatic risks and Competitive and fragmented business**
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. 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 of understudy.

Liquidity Position: Adequate

SKGP's liquidity is adequate, marked by moderate bank limit utilization, adequate net cash accruals against its debt obligations. SKGP has generated net cash accruals of Rs.1.38 Cr in FY2020 against debt obligation of Rs.0.60 Cr. The firm is expected to generate adequate NCAs in the range of Rs.1-1.5 Cr against CPLTD of Rs.0.60 Cr over the medium term. The average fund-based working capital utilization stood at 40 percent for the past 12 months ended December, 2020. The firm has maintained low unencumbered cash and bank balances over the last three years ending March 31, 2020. The current ratio stood moderate at around 1.40-1.50 times over the last 3 years ending March 31, 2020. Acuité believes that SKGP's liquidity will remain adequate over the medium term.

Rating Sensitivities

- Lower-than-expected revenue and profitability
- Further withdrawal of capital by the partners

Outlook: Stable

Acuité believes that SKGP will continue to benefit over the medium term due to its experienced management and established relation with its suppliers and customers. The outlook may be revised to 'Positive', in case of higher-than-expected revenue and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case SKGP registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure or further withdrawal of capital by partners leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	53.66	64.20
PAT	Rs. Cr.	1.16	1.13
PAT Margin	(%)	2.15	1.75
Total Debt/Tangible Net Worth	Times	1.15	0.82
PBDIT/Interest	Times	6.04	4.58

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
02-12-2019	Cash Credit	Long Term	5.00	ACUITE BB- / Stable (Upgraded)
	Term Loan	Long Term	1.30	ACUITE BB- / Stable (Upgraded)
16-01-2019	Cash Credit	Long Term	5.00	ACUITE B+/ Stable (Reaffirmed)
	Term Loan	Long Term	1.30	ACUITE B+/ Stable (Reaffirmed)
14-10-2017	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)
04-10-2016	Cash Credit	Long Term	2.80	ACUITE B+/ Stable (Assigned)
	Term Loan	Long Term	2.70	ACUITE B+/ Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Maturity Date Amount (Rs. Cr)	Recommended Rating
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB- / Stable (Reaffirmed)
Term Loan	Not Available	9%	Not Available	1.30	ACUITE BB- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB- / Stable (Assigned)

Contacts

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