

## Press Release

Shri Krishna Ginning & Pressing

May 20, 2022



## Rating Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	7.80	ACUITE BB-   Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	7.80	-	-

\* Refer Annexure for details

## Rating Rationale

Acuite has withdrawn the long-term rating of '**ACUITE BB-' (read as ACUITE double B minus)**' on the Rs.7.80 crore bank facilities of Shri Krishna Ginning and Pressing (SKGP). The rating is being withdrawn on account of the request received from the firm and the NOC received from the banker as per Acuite's policy on withdrawal of ratings.

## About the Firm

Maharashtra-based, 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

Acuite has taken a standalone view of the 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. The turnover of SKGP stood at Rs.64.50 crore in FY2021 against 53.65 crore in FY2020. The firm has achieved a turnover of Rs.99.90 crore in FY2022. The improvement in the revenues is majorly due to increase in demand. The firm has orders in hand worth Rs.3 crore as on as on date which is expected to be executed in 1-2 months. This gives adequate revenue visibility over the medium term. The operating margin of the firm improved and stood at 3.94 percent in FY2021 as against 2.62 percent in FY2020. The net profit margin of the firm also improved and stood at 3.36 percent in FY2021 as against 2.21 percent in FY2020. The improvement in the margins is majorly due to increase in the commodity prices.

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.

#### **>Efficient working capital management**

SKGP's working capital operations are efficient marked by efficient inventory and receivable management. Gross Current Asset days (GCA) stood at 45 days in FY2021 against 58 days in FY2020. The inventory days stood at 34 days in FY2021 against 17 days in FY2020. The firm maintains an inventory holding policy of 6 months on an average. The debtors' days stood at 11 days in FY2021 against 38 days in FY2020. The credit period given to customers is around 5-21 days. The creditors' days stood at 18 days in FY2021 against 37 days in FY2020. Firm procures raw cotton from local farmers having credit terms of 7-10 days or sometimes pays immediate cash. Average utilization during peak season (November to May) is full and during non-peak season the average utilization is ~60 percent.

Acuité believes that SKGP's working capital cycle will remain efficiently managed over the medium term.

#### **>Comfortable financial risk profile**

Financial risk profile of SKGP is comfortable marked by improving gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW) and comfortable debt protection metrics. The gearing stood at 0.94 times as on March 31, 2021 against 1.03 times as on March 31, 2020. TOL/TNW stood at 1.50 times as on March 31, 2021 against 2.13 times as on March 31, 2020. Tangible net worth of the firm stood modest at Rs.6.17 crore as on March 31, 2021 against Rs.4.88 crore as on March 31, 2020. Of the total debt of Rs.5.78 crore as on March 31, 2021, long-term debt stood at Rs.0.51 crore, short-term debt stood at Rs.4.23 crore, unsecured loans stood at Rs.0.44 crore and CPLTD stood at Rs.0.60 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood comfortable at 7.98 times and 0.41 times respectively in FY2021; while DSCR stood at 2.90 times in FY2021.

#### **Weaknesses**

##### **>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.

#### **Rating Sensitivities**

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

#### **Material covenants**

None

#### **Liquidity Position: Adequate**

SKGP has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The firm generated cash accruals in the range of Rs.1.40 crore – Rs.2.39 crore during the last three years through FY2019-21 against repayment obligations of Rs.0.60 crore during the same period. Unencumbered cash and bank balances stood at Rs.0.03 crore as on March 31, 2021 with a current ratio of 1.29 times in the same period. Liquid investments stood at Rs.2.71 crore as on March 31, 2021. The firm has not availed any covid loans / covid moratorium. Average utilization during peak season

(November to May) is full and during non-peak season the average utilization is ~60 percent. Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

## Outlook

Not Applicable

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	64.50	53.65
PAT	Rs. Cr.	2.17	1.19
PAT Margin	(%)	3.36	2.21
Total Debt/Tangible Net Worth	Times	0.94	1.03
PBDIT/Interest	Times	7.98	6.15

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

Not Applicable

## Any other information

None

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

## Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Mar 2021	Cash Credit	Long Term	5.00	ACUITE BB-   Stable (Reaffirmed)
	Term Loan	Long Term	1.30	ACUITE BB-   Stable (Reaffirmed)
	Cash Credit	Long Term	1.50	ACUITE BB-   Stable (Assigned)
02 Dec 2019	Term Loan	Long Term	1.30	ACUITE BB-   Stable (Upgraded from ACUITE B+   Stable)
	Cash Credit	Long Term	5.00	ACUITE BB-   Stable (Upgraded from ACUITE B+   Stable)
16 Jan 2019	Term Loan	Long Term	1.30	ACUITE B+   Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB-   Withdrawn
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB-   Withdrawn
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	1.30	ACUITE BB-   Withdrawn

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### About Acuité Ratings & Research

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