

Badrinath Cotton: Assigned

| Facilities | Amount (Rs. Crore) | Rating/Outlook |
|------------------------|--------------------|---------------------------|
| Cash Credit | 6.50 | SMERA B/Stable (Assigned) |
| Cash Credit (Proposed) | 0.50 | SMERA B/Stable (Assigned) |

SMERA has assigned rating of '**SMERA B' (read as SMERA B)** to the above mentioned bank facilities of Badrinath Cotton (BC). The outlook is '**Stable**'. The rating is constrained by the firm's moderate scale of operations and below average financial risk profile marked by low net worth, high gearing and moderate coverage indicators. The rating also factors in the geographical concentration risk. However, the ratings derive comfort from the experienced management and proximity to raw material sources.

BC is engaged in the manufacture of cotton and cotton seeds. The firm's scale of operations is moderate marked by operating income of Rs.17.76 crore in FY2015. The firm has booked revenue of around Rs.27.21 crore in FY2016 (provisional). The financial risk profile is below average marked by low net worth of Rs.1.15 crore and high gearing (Debt-equity ratio) of 4.79 times. The interest coverage ratio (ICR) stood at 1.24 times and debt service coverage ratio (DSCR) at 1.24 times in FY2016 (Provisional). The firm only operates in the local market of Kadi, Gujarat.

However, the rating derives comfort from the experience of the management of over a decade in the same line of business and proximity to raw material sources. The processing facility located at Kadi (Gujarat) offers easy access to raw material sources.

Outlook: Stable

SMERA believes BC will maintain a stable outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm registers higher-than-expected growth in revenue and net cash accruals while maintaining better profit margins and improvement in capital structure. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue and profitability or deterioration in the financial risk profile.

Rating Sensitivity Factors

- Improvement in the size of operations and profitability
- Improvement in the capital structure
- Efficient working capital management

Criteria applied to arrive at the rating:

- Manufacturing entities

About the Firm

BC was established in 2011 by Mr. Rohit Patel and family. The firm manufactures cotton and cotton seeds at Kadi, Gujarat and has an installed capacity of 16,000 tons per day.

For FY2014-15, the firm reported profit after tax (PAT) of Rs.0.01 crore on operating income of Rs.17.76 crore, as compared with PAT of Rs.0.05 crore on operating income of Rs.25.79 crore in FY2013-14.

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ABOUT SMERA

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