

Press Release

Badrinath Cotton

September 26, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	SMERA B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA B** (read as SMERA B)' on the Rs. 7.00 crore bank facilities of Badrinath Cotton. The outlook is '**Stable**'.

Badrinath Cotton (BC) was established in 2011 as a partnership firm by Mr. Rohit Patel and family. The firm is engaged in cotton ginning, oil extraction and trading of cotton seeds. The manufacturing facility is located at Kadi, Gujarat.

Key Rating Drivers**Strengths****• Experienced management**

The management has extensive experience in the said line of business.

• Comfortable working capital cycle

The firm has comfortable working capital cycle of 55 days in FY2017 as against 63 days in FY2016. The working capital cycle has improved on account of decrease in inventory holding period to 31 days in FY2017 compared to 49 days in FY2016. The debtor days stood at 25 in FY2017 as against 15 in FY2016. The GCA days are also comfortable at 63 days in FY2017 as against 73 days in FY2016. The bank limit utilisation stood at 90 per cent for the last six months ended August 2017.

Weaknesses**• Declining trend of profitability margins**

The profitability margins have been on a declining trend. The EBITDA margins stood at 1.42 per cent in FY2017 as against 1.94 per cent in FY2016 and 3.35 per cent in FY2015. This is majorly on account of fluctuation in raw material prices. The PAT margins have also been uneven at 0.07 per cent in FY2017 as against 0.21 per cent in FY2016 and 0.08 per cent in FY2015.

• Deterioration in the financial risk profile

The financial risk profile is below average marked by low net worth of Rs. 0.69 crore as on 31 March, 2017 as against Rs.1.15 crore a year earlier. The gearing further deteriorated to 9.01 times as on 31 March, 2017 from 4.89 times as on 31 March 2016. The interest coverage is moderate at 1.44 times for FY2017 as against 1.44 times in FY2016. The TOL/TNW is high at 9.53 times as on 31 March, 2017 compared to 4.94 times a year earlier. The NCA/TD stood at 0.03 times in FY2017.

• Volatility in raw material prices and government regulations

Cotton prices are regulated by the government through MSP (Minimum Support Price). However, the purchase and selling price depends on the prevailing demand-supply situation restricting bargaining power with suppliers and customers. Adverse movement in cotton prices further impacts the profitability of the firm.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of Badrinath Cotton to arrive at the rating.

Outlook: Stable

SMERA believes that BC will maintain a stable outlook in the medium term on account of its experienced management and proximity to raw material. The outlook may be revised to 'Positive' in case 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.

About the Rated Entity - Key Financials

In FY2016-17, the firm reported profit after tax (PAT) of Rs.0.02 crore on operating income of Rs.32.04 crore as against net profit of Rs.0.06 crore on operating income of Rs.27.21 crore in the previous year. The tangible net worth stood at Rs.0.69 crore as on 31 March, 2017 as against Rs. 1.15 crore a year earlier.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
13-Oct-2016	Cash Credit	Long Term	INR 6.5	SMERA B / Stable
	Proposed Cash Credit	Long Term	INR 0.5	SMERA B / Stable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.50	SMERA B / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA B / Stable

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