

Press Release

Badrinath Cotton

November 28, 2018

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

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

Badrinath Cotton (the firm) 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).

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

The firm is managed by the Partners, Mr. Rounak Patel, Mr. Harshadbhai J Patel and Mr. Rohitkumar J Patel. Mr. Harshadbhai J Patel and Mr. Rohitkumar J Patel have experience in the cotton industry since 2000 through other group firms. Mr. Rounak Patel joined the business in 2013. The firm has established industry connections through the experience of its management.

- **Comfortable working capital cycle**

The firm has comfortable working capital cycle marked by Gross Current Assets (GCA) of 43 days in FY2018 as compared to 62 days in FY2017. The working capital cycle has improved on account of decrease in debtor days, which stood at 11 days in FY2018 as against 25 days in FY2017. The inventory holding period has also decreased to 23 days in FY2018 as against 31 days in FY2017. In order to avail discounts, the firm pays its debtors immediately on cash basis. Further, the average bank limit utilisation stood comfortable at 65 percent for last year ended October 2018.

Weaknesses

- **Below average financial risk profile**

The financial risk profile of the firm is below average marked by low net worth of Rs.0.95 crore as on 31 March, 2018 and Rs.0.69 crore as on 31 March, 2017. The gearing of the firm stood high at 6.43 times as on March 31, 2018 as compared to 9.01 times in the previous year. Interest Coverage Ratio (ICR) stood at 1.34 times in FY2018 and 1.44 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 6.72 times as on 31 March, 2018 as against 9.53 times as on 31 March, 2017. Net Cash Accruals/Total Debt (NCA/TD) ratio stood stable at 0.03 times as on 31 March, 2018 as well as on 31 March, 2017. Going forward, some improvement is expected in the financial risk profile on the back of improvement in the scale of operations of the firm.

- **Modest profitability and susceptibility to raw material prices**

Cotton prices are highly regulated by government through MSP (Minimum Support Price). However, the purchase and selling price depends on the prevailing demand-supply situation restricting bargaining power with the suppliers and customers. Any adverse movement of cotton prices impacts the profitability of the firm. The profitability margin of the firm stood average at 1.50 percent in FY2018 and 1.42 percent in FY2017. This is majorly on account fluctuation in raw material prices.

- **Presence in a highly fragmented cotton ginning industry**

The firm operates in a highly fragmented industry wherein large numbers of unorganised players are present. It has low bargaining power against both its customers as well as its suppliers, coupled with limited value addition in cotton ginning resulting in the firm operating at thin profitability.

Outlook: Stable

Acuité believes Badrinath Cotton 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 growth in revenues and profitability, or in case of further deterioration in the firm's financial riskprofile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	48.02	32.04	27.21
EBITDA	Rs. Cr.	0.72	0.45	0.48
PAT	Rs. Cr.	0.03	0.02	0.01
EBITDA Margin	(%)	1.50	1.42	1.77
PAT Margin	(%)	0.06	0.07	0.04
ROCE	(%)	8.45	6.33	12.63
Total Debt/Tangible Net Worth	Times	6.43	9.01	4.89
PBDIT/Interest	Times	1.34	1.44	1.33
Total Debt/PBDIT	Times	8.08	10.54	10.14
Gross Current Assets (Days)	Days	43	62	71

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

Not Applicable

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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 (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
26-Sep-2017	Cash Credit	Long Term	6.50	ACUITE B / Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	0.50	ACUITE B / Stable (Reaffirmed)
13-Oct-2016	Cash Credit	Long Term	6.50	ACUITE B / Stable (Assigned)
	Proposed Cash Credit	Long Term	0.50	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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE B / Stable (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE B / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Avadhoot Mane Senior Analyst - Rating Operations Tel: 022 49294022 avadhoot.mane@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Sushmita Murai Analyst - Rating Operations Tel: 02249294055 sushmita.murai@acuiteratings.in	

About Acuité Ratings & Research:

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