

Press Release

Badrinath Cotton

August 12, 2019



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**) on the Rs.7.00 crore bank facilities of Badrinath Cotton (BC). 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).

Analytical Approach

Acuité has considered the standalone business and financial risk profile of BC 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.

- **Efficient working capital cycle**

The working capital management of the firm is efficient marked by Gross Current Assets (GCA) of 53 days in FY2019 (Provisional) as compared 43 days in FY2018. The working capital cycle has improved on account of decrease in debtor days, which stood at 3 days in FY2019 (Provisional) as compared to 11 days in FY2018. The inventory holding period has increased to 50 days in FY2019 (Provisional) from 23 days in FY2018. In order to avail discounts, the firm pays its creditors immediately on cash basis. Further, the average bank limit utilisation stood comfortable at 60 per cent for last three months ended July 2019.

Weaknesses

- **Below average financial risk profile**

The financial risk profile of the firm is below average marked by low net worth of Rs. 2.01 crore as on 31 March, 2019 (Provisional) as compared to Rs.0.95 crore as on 31 March, 2018. The gearing of the firm has improved at 2.44 times as on March 31, 2019 (Provisional) as compared to 6.43 times in the previous year. Interest Coverage Ratio (ICR) stood at 1.30 times in FY2019 (Provisional) and 1.34 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.88 times as on 31 March, 2019 (Provisional) as against 6.72 times as on 31 March, 2018. Net Cash Accruals/Total Debt (NCA/TD) ratio stood stable at 0.03 times as on 31 March, 2019 (Provisional) as well as on 31 March, 2018.

- **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 1.57 per cent in FY2019 (Provisional) and 1.50 per cent in FY2018. 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.

- **Agro climatic risks**

Cotton is a seasonal crop, further, the price and availability of cotton is highly dependent on the adequacy of monsoon. Any adverse agro-climatic conditions may affect the business risk profile of the firm.

Liquidity position

BC has stretched liquidity marked by low net cash accruals, however, no long-term debt obligations. BC generated cash accruals of Rs. 0.16 to Rs.0.19 crore during the last three years through 2017-19, while its maturing debt obligations were Nil. The cash accruals of BC are estimated to remain around Rs. 0.2 to 0.3 crore during 2019-21 while its repayment obligations are estimated to be around Nil. BC's working capital cycle is efficiently managed, which has led to lower reliance on working capital borrowings. The cash credit limit in BC remains utilised at 60 per cent during the last 3 months period ended July 2019. BC maintained unencumbered cash and bank balances of Rs.0.03 crore as on 31 March, 2019 (Provisional). The current ratio of BC stands moderate at 1.09 times as on 31 March, 2019 (Provisional). BC is not likely to incur any major capex to be funded by external borrowing. Acuité believes that the liquidity of BC is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

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.

About the Rated Entity - Key Financials

| | Unit | FY19 (Provisional) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 43.31 | 48.02 | 32.04 |
| EBITDA | Rs. Cr. | 0.68 | 0.72 | 0.45 |
| PAT | Rs. Cr. | 0.01 | 0.03 | 0.02 |
| EBITDA Margin | (%) | 1.57 | 1.50 | 1.42 |
| PAT Margin | (%) | 0.01 | 0.06 | 0.07 |
| ROCE | (%) | 7.60 | 8.45 | 6.33 |
| Total Debt/Tangible Net Worth | Times | 2.44 | 6.43 | 9.01 |
| PBDIT/Interest | Times | 1.30 | 1.34 | 1.44 |
| Total Debt/PBDIT | Times | 7.18 | 8.08 | 10.54 |
| Gross Current Assets (Days) | Days | 53 | 43 | 62 |

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/view-rating-criteria-17.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 (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|-----------|------------------|--------------------------------|
| 28-Nov-2018 | Cash Credit | Long Term | INR 6.5 | ACUITE B / Stable (Reaffirmed) |
| | Proposed Cash Credit | Long Term | INR 0.5 | ACUITE B / Stable (Reaffirmed) |
| 26-Sep-2017 | Cash Credit | Long Term | INR 6.5 | ACUITE B / Stable (Reaffirmed) |
| | Proposed Cash Credit | Long Term | INR 0.5 | ACUITE B / Stable (Reaffirmed) |
| 13-Oct-2016 | Cash Credit | Long Term | INR 6.5 | ACUITE B / Stable (Assigned) |
| | Proposed Cash Credit | Long Term | INR 0.5 | 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

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|--|---|
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About Acuité Ratings & Research:

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