

## Press Release

### Badrinath Cotton

August 12, 2019

### Rating Reaffirmed



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

\* Refer Annexure for details

### Rating Rationale

Acuite 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

Acuite 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. Acuite 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**

Acuite 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**

Acuite 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

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Sushmita Murai Analyst - Rating Operations Tel: 022-49294033 <a href="mailto:sushmita.murai@acuite.in">sushmita.murai@acuite.in</a>	Varsha Bist Manager - Rating Desk Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

## About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.