

Press Release

Badrinath Cotton

October 20, 2020

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the 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 the year of 2011 by Mr. Rohit Patel and family. The firm is primarily engaged in cotton ginning, oil extraction and trading of cotton seeds. The manufacturing facility is located in Kadi, district of Gujarat.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of BC to arrive at this 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 and Mr. Rounak joined the cotton business in 2013. The firm has established industry connections through the experience of its management. Acuité believes that BC will continue to benefit from its experienced management.

• Efficient working capital management

The working capital management of the firm is efficient, marked by Gross Current Assets (GCA) of 49 days in FY2020 (Provisional) as compared 53 days in FY2019. The debtor days increased to 22 days in FY2020 (Prov.) from 3 days in the previous year on account of the disruptions caused by the COVID-19 lockdown since March, 2020. The inventory holding period has decreased to 26 days in FY2020 (Provisional) from 50 days in FY2019. In order to avail discounts, the firm pays its creditors immediately on a cash basis. Acuité believes that BC's ability to maintain its working capital efficiency will be a key monitorable.

Weaknesses

• Below average financial risk profile

The financial risk profile of BC is below average marked by low net worth of Rs. 2.07 crore as on 31 March, 2020 (Provisional) and Rs. 2.02 crore as on 31 March, 2019. The gearing of the firm stands high at 2.57 times as on March 31, 2020 (Provisional) as compared to 2.42 times in the previous year. Total outside Liabilities/Tangible Net Worth (TOL/TNW) also stood high at 2.72 times as on 31 March, 2018 as against 2.87 times as on 31 March, 2019. Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) both stood at 1.40 times in FY2020 (Provisional) and 1.33 times in FY2019. Net Cash Accruals/Total Debt (NCA/TD) ratio stood stable at 0.03 times as on 31 March, 2020 (Provisional) and Rs. 0.04 times on 31 March, 2019.

• Modest profitability and susceptibility to raw material prices

Cotton prices are highly 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 the suppliers and customers. Any adverse movement of cotton prices impacts the profitability of the firm. The profitability margin of the firm stood at 1.14 per

cent in FY2020 (Provisional) and 1.61 per cent in FY2019. This is majorly on account fluctuation in raw material prices. Acuité believes that BC's ability to maintain its profitability in volatile raw material prices will be a key monitorable.

• Intense competition and inherent cyclical in the cotton industry

BC operates in a highly fragmented industry wherein large numbers of un-organized 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.

Liquidity Position: Adequate

BC generated cash accruals of Rs. 0.15 to 0.19 crore during the last three years through 2018-20, while there are no maturing debt obligations. The cash accruals of BC are estimated to remain around Rs. 0.23 to 0.25 crore during 2020-23 against no repayment obligations for the same period. BC's working capital cycle is efficiently managed which has led to lower reliance on working capital borrowings, the six month cash credit limit utilization of BC remains at ~50 percent during the last months period ended September 2020. BC maintained unencumbered cash and bank balances of Rs. 0.04 crore as on March 31, 2020 (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 no major repayments over the medium term.

Rating Sensitivities

- Ability to maintain profitability and scale of operations will be a key rating sensitivity.
- Any elongation in the working capital cycle will be key a monitorable.

Outlook: Stable

Acuité believes BC 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 risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	45.47	43.33
PAT	Rs. Cr.	0.01	0.02
PAT Margin	(%)	0.03	0.06
Total Debt/Tangible Net Worth	Times	2.57	2.42
PBDIT/Interest	Times	1.40	1.33

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12-Aug-2019	Proposed Cash Credit	Long Term	0.5	ACUITE B / Stable (Reaffirmed)
	Cash Credit	Long Term	6.5	ACUITE B / Stable (Reaffirmed)
28-Nov-2018	Cash Credit	Long Term	6.5	ACUITE B / Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	0.5	ACUITE B / Stable (Reaffirmed)
26-Sep-2017	Cash Credit	Long Term	6.5	ACUITE B / Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	0.5	ACUITE B / Stable (Reaffirmed)
13-Oct-2016	Cash Credit	Long Term	6.5	ACUITE B / Stable (Assigned)
	Proposed Cash Credit	Long Term	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	7.00	ACUITE B/ Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Parth Pandit Analyst - Rating Operations Tel: 022-49294032 parth.pandit@acuite.in	

About Acuité Ratings & Research:

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