

Bhavani Cotton Industries: Assigned

Facilities	Amount (Rs. Crore)	Rating/Outlook
Working Capital Term Loan	6.00	SMERA B+/Stable (Assigned)
Term Loan	3.89	SMERA B+/Stable (Assigned)
Proposed Cash Credit	0.61	SMERA B+/Stable (Assigned)

SMERA has assigned rating of '**SMERA B+**' (**read as SMERA B Plus**) to the Rs.10.50 crore bank facilities (fund based) of Bhavani Cotton Industries (BCI). The outlook is '**Stable**'. The rating is constrained by the moderate financial risk profile and the highly fragmented weaving industry. However, the rating derives comfort from the experienced management and proximity to raw material sources.

BCI, established in 2014, is engaged in the ginning and pressing of cotton. The firm has small scale of operations marked by operating income of Rs.5.25 crore in FY2014-15. The firm incurred a loss of Rs.0.36 crore in FY2014-15. As per provisional financials, BCI reported operating income of Rs.70.92 crore for FY2016. The moderate financial risk profile is reflected in the high gearing of 3.80 times as on 31 March, 2015. The rating also factors in the intense market competition in the weaving industry.

However, the manufacturing facilities enjoy close proximity to raw material sources. BCI also benefits from its experienced management. The partners possess experience of around a decade in the cotton industry.

Outlook: Stable

SMERA believes BCI will maintain a stable outlook in the medium term on account of its experienced management and proximity to raw material sources. The outlook may be revised to 'Positive' if the firm registers higher-than-expected growth in revenues 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 revenues and profitability or deterioration in the financial risk profile.

Rating Sensitivity Factors

- Increase in scale of operations and improvement in profitability
- Improvement in the capital structure
- Efficient working capital management

Criteria applied to arrive at the rating:

- Manufacturing Entities

About the Firm

BCI, established in 2014, is an Andhra Pradesh-based partnership firm engaged in the ginning and pressing of cotton. The firm is headed by Mr. N. Suresh and others who possess extensive experience in the cotton industry. The installed capacity stands at 26 Gins.

The firm reported loss of Rs.0.36 crore on operating income of Rs.5.25 crore in FY2014-15. The net worth stood at Rs.1.72 crore as on March 31, 2015. As informed by management, the firm registered revenues of Rs.70.92 crore (Provisional) for FY2016.

Contacts:

Analytical	Business Development
Mr. Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: mohit.jain@smera.in	Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in

ABOUT SMERA

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