

Press Release

JADHAO COTTON INDUSTRIES

November 14, 2017

Rating Assigned



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

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B**' (read as **SMERA B**) on the Rs. 7.00 crore bank facilities of JADHAO COTTON INDUSTRIES. The outlook is '**Stable**'.

Jadhao Cotton Industries (JCI) was established in 2007 as a partnership firm by Mr. Bhaurao Kondbaji Jadhav and Mrs. Kavita Bhaurao Jadhao. The firm is engaged in the business of cotton ginning and trading of cotton bales. It has 36 machines with installed capacity of 300 bales per day. The firm currently produces 275 bales per day and 100 tonnes of seeds and caters to Maris Spinners limited, MTK textiles, Alok Industries Limited, Prachidhi Spinners to name a few.

Key Rating Drivers

Strengths

- **Experienced management**

Having been in the aforementioned business for almost a decade, the promoters have extensive experience in the industry and have developed healthy relations with customers and suppliers.

- **Proximity to raw materialsources**

The facility is located in Darwha, Yavatmal - a cotton producing belt of India, ensuring easy access to raw material.

Weaknesses

- **Below average financial riskprofile**

The financial risk profile is moderate marked by tangible net worth of Rs. 2.47 crore as on 31 March, 2017 (Provisional) as against Rs.1.63 crore in the previous year. The gearing stood at 3.21 times as on 31st March, 2017 (Provisional) as against 8.30 times as on 31 March, 2016. The debt of Rs. 7.92 crore mainly consists of loans of Rs. 3.33 crore and working capital limits of Rs. 4.45 crore as on 31 March, 2017 (Provisional). The Interest Coverage Ratio (ICR) stood at 1.53 times for FY 2017 (Provisional) as against 1.29 times in FY2016. The Total outside Liabilities/Tangible net worth (TOL to TNW) stood at 4.56 times as on 31 March, 2017 (Provisional) as against 9.95 times in the previous year. The Net cash accruals/total debt (NCA to TD) stood at 0.05 times as on 31 March, 2017 (Provisional) as against 0.01 times in 31 March, 2016. SMERA expects the financial risk profile to improve marginally in the near to medium term on account of capital infusion by partners and absence of major debt funded capex.

- **Volatility in raw material prices and government regulation**

Cotton prices are 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 suppliers and customers. Adverse movement of cotton prices further impacts profitability.

- **Highly fragmented cotton ginning industry**

JCI operates in a highly fragmented industry with large number of unorganised players. As a result the bargaining power against customers as well as suppliers is low. Also, there exists limited value addition in

the cotton ginning process resulting in the firm operating at thin profitability.

• **Risk of agro calamities**

The firm is exposed to agro climatic risks considering that cotton bales is an agro commodity.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of the firm.

Outlook: Stable

SMERA believes that JCI will maintain a stable outlook over the medium term owing to the extensive experience of the management in the textile industry. The outlook may be revised to 'Positive' if the scale of operations increases substantially, while also improving its operating profitability and financial risk indicators. Conversely, the outlook may be revised to 'Negative' if the profit margins register a decline or the financial risk profile deteriorates.

About the Rated Entity - Key Financials

The firm reported profit after tax (PAT) of Rs. 0.32 crore on net sales of Rs. 62.87 crore in FY2017 (Provisional) as against PAT of Rs. 0.03 crore on net sales of Rs. 29.78 crore in FY2016. The net worth stood at Rs. 2.47 crore as on 31 March, 2017 (Provisional) compared to Rs. 1.63 crore in the previous year.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------|------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 7.00 | SMERA B / Stable |

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