

Press Release

Mahalaxmi Cotton

May 24, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 7.56 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. 7.56 crore bank facilities of Mahalaxmi Cotton. The outlook is '**Stable**'.

Mahalaxmi Cotton was established in the year 2013 as a partnership firm. The firm is engaged in ginning and pressing of cotton bales with its manufacturing facility situated at Kadi, Gujarat. It has a production capacity of 25000 bales p.a. The firm also carries out cottonseed crushing to produce cottonseed oil and cottonseed oilcake with an input capacity of 8000 metric tons per annum (MTPA). The firm is promoted and managed by Mr. Kanubhai Patel, who has over two decade's experience in cotton ginning business.

Key Rating Drivers

Strengths

- **Extensive industry experience of the promoters**

The promoters, Mr. Natubhai and Mr. Kanubhai Patel have over two decade's of experience in the textile industry from previously working in ginning and pressing companies .

- **Efficient Working Capital cycle**

The gross current asset (GCA) days of the firm have improved to 64 days in FY2016 from 124 days in FY2015. The improvement in GCA days is on account of improvement in inventory days from 75 days in FY2016 to 46 days in FY2015 due to decrease in raw material prices. Further, the debtor days improved to 18 days in FY2016 from 49 days in FY2015 due to better collection policy of the firm.

Weaknesses

- **Uneven revenues with moderate scale of operations**

The scale of operations of the firm is moderate and uneven evident from operating income of Rs.33.24 crore in FY2016 as compared to Rs. 18.99 crore in FY2015 and Rs. 26.17 crore in FY2014. Further in FY2017, firm has achieved revenue of Rs. 35.00cr (provisional). The revenues have been uneven on account of adverse market conditions.

- **Average financial risk profile**

The firm's financial risk profile is average marked by high gearing (debt to equity ratio) of 4.01 times as on March 31, 2016 as compared to 3.38 times as on March 31, 2015. Interest coverage ratio (ICR) of the firm stood low at 1.02 times for FY2016 as compared to 1.09 times for FY2015. Tangible Net worth of the firm is low and it stood at Rs.1.79 crore as on March 31, 2016 as compared to Rs. 2.21 crore in as on March 31, 2015.

- **Presence in a highly fragmented cotton ginning industry**

The firm operates in a highly fragmented industry wherein large numbers of un-organized players are present; it has very low bargaining power against both its customers as well as its suppliers,

coupled with limited value addition in cotton ginning process result in the firm operating at thin profitability.

• **Susceptible to fluctuations in agro commodity prices**

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 further impacts the profitability.

Analytical Approach

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

Outlook: Stable

SMERA believes that the firm will continue to benefit over the medium term from its established presence in the ginning industry and experienced management. The outlook may be revised to 'Positive' if firm's scale of operations increases substantially, while also improving its operating profitability and financial risk indicators. Conversely, the outlook may be revised to 'Negative' if firm's profit margins decline in medium term resulting out of fluctuations in raw material prices and if case of any further deterioration in the financial risk profile.

About the Rated Entity - Key Financials

For FY2015-16, MC reported profit after tax (PAT) of Rs.0.01 crore on operating income of Rs. 33.24 crore as compared with PAT of Rs. 0.05 crore on operating income of Rs. 18.99 crore for FY2014-15. The Networth for FY2015-16 is Rs. 1.79 crore as compared to Rs. 2.21 crore for FY2014-15.

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA B / Stable
Term loans	Not Applicable	Not Applicable	31-Jul-2020	1.56	SMERA B / Stable

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