

Press Release

Mahalaxmi Cotton

February 07, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 7.56 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B**' (read as **ACUITE 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 located in Kadi, Gujarat. The firm is engaged in ginning and pressing of Cotton bales. It has a production capacity of 25000 bales p.a. The firm also carries out cottonseed crushing to produce cotton seed oil and cottonseed oilcake in a nearby unit on lease having an input capacity of 8000 MTPA. The firm is promoted and managed by Mr. Kanubhai Patel, who has over 15 years of experience in cotton ginning business, and other family members.

Analytical Approach

Acuité has considered the standalone financial and business risk profiles of Mahalaxmi cotton to arrive at the rating.

Key Rating Drivers

Strengths

- **Extensive industry experience of the promoters**

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

- **Comfortable Working Capital cycle**

The gross current asset (GCA) days of the firm have improved to 64 days in FY2018 from 59 days in FY2017. The improvement in GCA days is on account of improvement in inventory days from 45 days in FY2017 to 37 days in FY2018 due to decrease in raw material prices.

Weaknesses

- **Average financial risk profile**

The firm's financial risk profile is average marked by high gearing (debt to equity ratio) of 2.73 times as on March 31, 2018 as compared to 3.80 times as on March 31, 2017. Interest coverage ratio (ICR) of the firm stood low at 1.38 times for FY2018 as compared to 1.30 times for FY2017. Tangible Net worth of the firm is low and it stood at Rs.2.19 crore as on March 31, 2018 as compared to Rs. 1.87 crore in as on March 31, 2017.

- **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 impact the profitability.

Liquidity Position

The company has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company had cash accruals of Rs.0.20 crore in FY2018, while the maturing debt obligations are zero over the same period. The cash accruals are estimated to remain around Rs.0.20-0.50 crore during FY 2019- 2021. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accrual coupled with no major repayments over the medium term.

Outlook: Stable

Acuité believes that the outlook of the firm will remain stable over the medium term on account of 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

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	34.00	40.76	33.24
EBITDA	Rs. Cr.	0.73	0.64	0.50
PAT	Rs. Cr.	0.09	0.02	0.01
EBITDA Margin	(%)	2.16	1.57	1.49
PAT Margin	(%)	0.28	0.04	0.03
ROCE	(%)	7.33	6.11	11.17
Total Debt/Tangible Net Worth	Times	2.73	3.80	4.01
PBDIT/Interest	Times	1.38	1.30	1.02
Total Debt/PBDIT	Times	8.10	10.27	14.33
Gross Current Assets (Days)	Days	64	59	67

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

None

Any other information

"Acuité 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/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.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
29-Jun-2018	Cash Credit	Long Term	6.00	ACUITE B (Indicative)
	Term Loan	Long Term	1.56	ACUITE B (Indicative)
24-May-2017	Cash Credit	Long Term	6.00	ACUITE B / Stable (Assigned)
	Term Loan	Long Term	1.56	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	6.00	ACUITE B / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.06	ACUITE B / Stable (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE B / Stable (Assigned)

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About Acuité Ratings & Research:

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