

Press Release

07 June, 2017

Shree Harikrushna Cotton Industries

Rating Assigned

Total Bank Facilities Rated *	Rs.9.76 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 plus)**' on the Rs. 9.76 crore bank facilities of Shree Harikrushna Cotton Industries. The outlook is '**Stable**'.

Shree Harikrushna Cotton Industries (SHCI), established in 2013, is engaged in cotton ginning and pressing at Kadi, Gujarat. The plant is equipped with 30 ginning machines, 1 pressing machine and 6 crushing machines with production capacity of 182 bales and 36 MT Oil per day.

Key Rating Drivers

Strengths

- **Experienced management**

SHCI was promoted by Mr. Sanjay Patel and family. The promoters have more than a decade of experience in the said line of business.

- **Average financial risk profile**

The firm has average financial risk profile marked by high gearing of 3.91 times for FY2015-16. The Interest Coverage ratio has been moderate at 1.39 times for FY2015-16. The company has maintained EBITDA margins of 3.91 per cent for FY2015-16 as against 2.78 per cent for FY2014-15 in spite of fall in revenue trend. The ROCE is moderate at 10.91 per cent for FY2015-16. The TOL/TNW stood at 4.14 times for FY2015-16 as against 5.36 times in FY2014-15. The firm has moderate net worth of Rs. 1.87 crore for FY2015-16. The long term debt of Rs. 3.37 crore consists of unsecured loans of Rs. 2.31 crore.

- **Comfortable working capital cycle**

SHCI has comfortable working capital cycle of 56 days for FY2015-16 as against 67 days for FY2014-15. The debtor days stood at 18, creditor days at 2 and inventory days at 40 for FY2015-16.

Weaknesses

- **Highly competitive and fragmented industry**

Cotton ginning is a low margin business as value addition is less. Hence, the bargaining power with customers is limited. The industry is fragmented and competitive with large number of unorganised players.

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

Prices of raw cotton are fixed by the government through Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with suppliers. Any adverse movement in cotton prices further impacts profitability.

Analytical Approach

SMERA has considered the standalone financial and business risk profiles of Shree Harikrushna Cotton Industries to arrive at the rating.

Outlook: Stable

SMERA believes that SHCI will maintain a stable outlook over the medium term owing to its promoters' industry experience. The outlook may be revised to 'Positive' if the firm reports increased operating revenues and sustains cash accruals leading to steady improvement in liquidity and capital structure. Conversely, the outlook may be revised to 'Negative' if the firm undertakes large debt funded capex, or registers decline in revenue and cash accruals leading to deterioration in its financial risk profile.

About the Rated Entity - Key Financials

For FY2015-16, the firm reported profit after tax (PAT) of Rs.(0.04) crore on operating income of Rs37.78 crore, as compared with PAT of Rs.(0.04) crore on operating income of Rs.41.89 crore in FY2014-15.

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA B+ / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.76	SMERA B+ / Stable

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ABOUT SMERA

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