

Press Release

GM Reddy Cotton Industries Private Limited (GMRCIPL)

23 September, 2017

Rating Assigned

| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 10.00 Cr. |
| Long Term Rating | SMERA BB- / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA double B minus**) on the Rs. 10.00 crore bank facilities of GM Reddy Cotton Industries Private Limited (GMRCIPL). The outlook is '**Stable**'.

Incorporated in 2010, GMRCIPL is a Warangal based company promoted by Mr. Gandra Bhoopal Reddy and family. The company is engaged in the ginning and pressing of cotton. The current installed capacity of the company is 250 bales/ day.

Key Rating Drivers

Strengths

Experienced management

The company was promoted by Mr. Gandra Bhoopal Reddy and family who possess nearly a decade of experience in cotton ginning and pressing as also construction and mining.

Proximity to raw materials

The ginning unit is located at Warangal (Telangana), known as one of the major cotton producing belts of India. This ensures timely supply of raw material.

Reputed customer base

The company caters to RAMCO Spinning Mills (the textile division of RAMCO group), Sri Saravana Spinning Mills Private Limited (Rated SMERA BBB/Stable), and Jyotirmaye Textiles Private Limited which constitutes around 60 per cent of its total sales. In addition, the company sells cotton seeds and bales to local players.

Weaknesses

Average financial risk profile

The average financial risk profile is marked by low net worth base, moderate gearing and debt protection metrics. The tangible net worth stood at Rs.4.66 crore as on 31 March, 2017 (Provisional) compared to Rs 4.62 crore as on 31 March, 2016. SMERA has considered unsecured loan from promoters of Rs 1.43 crore as quasi equity as the same is subordinated to bank. The gearing stood moderate at 1.26 times in FY2017 (Provisional) as against 1.30 times in FY2016 where total debt of Rs 5.86 crore mainly comprises Rs 5.75 crore of working capital borrowings and Rs 0.11 crore of vehicle loans. The debt protection metrics comprise Interest coverage ratio (ICR) that stood at 1.30 times for FY2017 (Provisional) as against 1.34 times for FY2016.

Working capital intensive operations

The company's operations are working capital intensive as reflected in the gross current assets (GCA) of 184 days in 2017 (Provisional), as against 157 days in 2016. The high GCA days emanate from the high inventory holding period of 134 days and 129 days respectively in FY2017 and FY2016 as the company had to procure raw cotton during the harvesting season from October to May. The company procures majority of the raw cotton during this period. The company on an average utilises its working capital limit to the extent of 60-70 per cent.

Modest scale of operations

The company's operations are modest with revenue of Rs 23.44 crore in FY2017 (Provisional) compared to Rs 21.67 crore in FY2016.

Volatility in raw material prices and government regulation

Cotton prices are highly 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 the suppliers and customers. Any adverse movement of cotton prices further impacts profitability.

Presence in a highly fragmented cotton ginning industry

The company operates in a highly fragmented industry with a large number of organised and unorganised players. It has low bargaining power against customers as well as suppliers, coupled with limited value addition in cotton ginning process resulting in the company operating at thin profitability.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profiles of GMRCIPL.

Outlook: Stable

SMERA believes that GMRCIPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers strong growth in scale of operations while registering sustained improvement in profit margins and achieving efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the scale of operations and profitability or lengthening of the working capital cycle.

About the Rated Entity - Key Financials

For FY2017 (Provisional), the company reported Profit after Tax (PAT) of Rs. 0.04 crore on total operating income of Rs.23.44 crore compared with PAT of Rs. 0.04 crore on total operating income of Rs. 21.67 crore in FY2016.

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 | 7.50 | SMERA BB-/ Stable |
| Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 2.50 | SMERA BB-/ Stable |

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