

## Press Release

### GM Reddy Cotton Industries Private Limited (GMRCIPL)

November 21, 2018

### Rating Downgraded



<b>Total Bank Facilities Rated*</b>	Rs. 10.00 Cr.
<b>Long Term Rating</b>	ACUITE B+/Stable (Downgraded)

\* Refer Annexure for details

### Rating Rationale

Acuite has downgraded long term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on Rs 10.00 crore bank facilities of GM Reddy Cotton Industries Private Limited (GMRCIPL). The outlook is "**Stable**". The downgrade is due to dip in revenue and operating margins in FY 2018. Further, the operating performance of the company in FY 2018 has been lower than Acuite expectation.

Incorporated in 2010 GM Reddy Cotton Industries Private Limited (GMRCIPL) is a Warangal based company promoted by Mr. Gandra Bhoopal Reddy and family and is engaged into cotton ginning and pressing business. The current installed capacity of the company is 250 bales/ day.

#### **Analytical Approach:**

Acuite has taken a standalone view of the business and financial risk profile of GMRCIPL to arrive at the rating.

#### **Key Rating Drivers:**

##### **Experienced management**

Promoted by Mr. Gandra Bhoopal Reddy and family who has nearly a decade of experience in cotton ginning and pressing business. In addition the Reddy family is also engaged in construction and mining business.

##### **Proximity to the raw materials**

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

#### **Weaknesses**

##### **Average Financial Risk Profile**

The average financial risk profile is marked by low net worth base, moderate gearing and debt protection metrics. Tangible net worth stood at Rs.4.66 cr as on 31 March 2018 as against Rs 4.63 cr as on 31 March 2017. Acuite has considered unsecured loan from promoters of Rs 1.43 cr as quasi equity as the same is subordinated to bank. The gearing stood moderate at 1.47 times as on 31<sup>st</sup> March 2018 as against 1.27 times in the previous year. The total debt of Rs 6.83 cr mainly comprises of working capital borrowings. The debt protection metrics comprising of Interest coverage ratio (ICR) stood at 1.32 times for FY2018 as against 1.32 times for FY2017. NCA/TD stood at 0.03 times in FY 2018 as compared to 0.04 times in the previous year.

### Working capital intensive operations

The company's operations are working capital intensive in nature as reflected in gross current assets (GCA) of 184 days in 2018), as against 182 days in 2017. These high GCA days are emanates from high inventory holding period of 125 days and 133days respectively in FY18 and FY17 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.

### Modest scale of operations

The company's operations are modest with revenue of Rs 22.25 crs in FY 2018 as compare to Rs 23.58 crs in FY 2017.

### Volatility in raw material prices and Government regulation

Cotton prices are highly regulated by 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 the profitability.

### Presence in a highly fragmented cotton ginning industry

The company 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.

### Outlook: Stable

Acuite believes GMRCIPL will maintain a stable business risk profile over the medium term. The company will continue to benefits from 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. The outlook may be revised to 'Negative' in case of deterioration in the company's scale of operations and profitability or capital structure, or in case of lengthening of working capital cycle.

### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	22.25	23.58	21.67
EBITDA	Rs. Cr.	0.93	1.11	1.15
PAT	Rs. Cr.	0.03	0.03	0.04
EBITDA Margin	(%)	4.20	4.71	5.30
PAT Margin	(%)	0.14	0.12	0.18
ROCE	(%)	6.81	8.52	9.14
Total Debt/Tangible Net Worth	Times	1.47	1.27	1.30
PBDIT/Interest	Times	1.32	1.29	1.34
Total Debt/PBDIT	Times	7.31	5.27	5.21
Gross Current Assets (Days)	Days	176	182	157

### Status of

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

On 12th Nov '2018 -India Ratings and Research (Ind-Ra) has maintained GM Reddy Cotton Industries Private Limited's Long-Term Issuer Rating in the non-cooperating category.

### Any other information

Acuite 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.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.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. Crore)	Ratings/Outlook
23- Sept-2017	Cash Credit	Long Term	7.50	ACUITE BB-/Stable (Assigned)
	Proposed Cash Credit	Long Term	2.50	ACUITE BB-/Stable (Assigned)

### \*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	ACUITE B+/Stable (Downgraded)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE B+/Stable (Downgraded)

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**About Acuité Ratings & Research:**

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