

## Press Release

### SHREEKRISHNA COTTON COMPANY

29 January, 2018

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 8.43 Cr.
<b>Long Term Rating</b>	SMERA B+ / Outlook: Stable
<b>Short Term Rating</b>	SMERA A4

\* Refer Annexure for details

### Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA B plus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs.8.43 crore bank facilities of SHREEKRISHNA COTTON COMPANY. The outlook is '**Stable**'.

ShreeKrishna Cotton Company (SKCC) is a Nagpur-based partnership firm established in 2013 by Mr. Narendra Chandak and Mr. Jaiprakash Chandak. The firm began trading in cotton bales, seeds, oil & cotton cake initially. Subsequently, in FY2017 the firm ventured into processing of cotton bales and extraction of oil from cotton seeds at Saoner Malegaon, Nagpur.

### Key Rating Drivers

#### Strengths

- **Experienced promoters**

The promoters, Mr. Narendra Chandak and Mr. Jaiprakash Chandak possess experience of more than 15 years in the ginning and pressing of cotton.

- **Improvement in working capital cycle**

SKCC registered improvement in working capital cycle. The Gross Current Asset days stood at 82 days in FY2017 as against 162 days in FY2016. Further, the working capital cycle days stood at 22 in FY2017 as against 25 days in FY2016. This is on account of moderate inventory holding period which stood at 44 days in FY2017 as against 139 days in FY2016. The debtor days also stood low at 23 days for FY2017.

#### Weaknesses

- **Thin profitability margins**

The EBITDA margin stood thin at 1.76 percent against revenue of Rs.56.97 crore for FY2017. Further, the PAT margin declined to 0.06 percent in FY2017 as against 0.25 percent in FY2016.

- **Weak financial risk profile**

SKCC has a weak financial risk profile marked by low net worth of Rs.2.10 crore as on 31 March, 2017. The gearing stood high at 4.19 times for FY2017 as against 0.47 times for FY2016. The ICR stood moderate at 2.99 times in FY2017 as against 5.10 times for FY2016. The DSCR stood at 2.99 times in FY2017.

- **Highly fragmented cotton ginning industry**

The firm operates in a highly fragmented cotton industry with several organised and unorganised players. The profitability is thin with limited value addition in the ginning process.

- **Moderate scale of operations**

The scale of operations is moderate. The firm registered operating income of Rs.56.97 crore for FY2017 as against Rs.11.88 crore in the previous year.

## Analytical Approach

SMERA has considered the standalone business and financial risk profile of the firm for arriving at the rating.

## Outlook: Stable

SMERA believes that SKCC will maintain a stable outlook over the medium term owing to its established presence in the ginning industry and experienced management. The outlook may be revised to 'Positive' if the scale of operations increases substantially, while improving its operating profitability and financial risk indicators. Conversely, the outlook may be revised to 'Negative' if SKCC's profit margins decline in the medium term owing to fluctuations in raw material prices and deterioration in the financial risk profile.

## About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	56.97	11.88	20.24
EBITDA	Rs. Cr.	1.00	0.04	0.03
PAT	Rs. Cr.	0.03	0.03	0.03
EBITDA Margin	(%)	1.76	0.32	0.15
PAT Margin	(%)	0.06	0.25	0.15
ROCE	(%)	5.93	3.74	13.46
Total Debt/Tangible Net Worth	Times	4.19	0.47	0.00
PBDIT/Interest	Times	2.99	5.10	41.71
Total Debt/PBDIT	Times	8.72	13.16	0.00
Gross Current Assets (Days)	Days	82	162	79

## 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>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.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. Crore)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	3.75	SMERA B+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.70	SMERA B+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.07	SMERA A4
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.91	SMERA B+ / Stable

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## ABOUT SMERA

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