

Press Release

GOVERDHAN COTTEX (GC)

30 January, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 9.00 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 above mentioned bank facilities of Goverdhan Cottex (GC). The outlook is '**Stable**'.

GC, a partnership firm was established in 2012 by Mrs. Monika Harsola, Mr. Pritesh Harsola, and Mr. Yogesh Harsola. The firm is engaged in the ginning and pressing of cotton and extraction of oil from cotton seeds from 2014. The facility located at Khetia, Madhya Pradesh has installed capacity of 200 bales per day. The day-to-day operations are led by Mr. Dipesh Khetiya and Mr. Pritesh Harsola.

Key rating drivers

Strengths

Experienced management

The promoters, Mrs. Monika Harsola, Mr. Pritesh Harsola and Mr. Yogesh Harsola have experience of over two decades in the cotton ginning industry.

Comfortable working capital cycle

The working capital cycle of GC is comfortable marked by GCA of 55 days in FY2017 as against 92 days in FY2016. The GCA is mainly dominated by inventory of 44 days in FY2017 and 80 days in FY2016 while the debtors have remained in the range of 10 to 30 days during the period under study. The average cash credit utilisation for past six months has been around 70 percent. SMERA believes that efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Weaknesses

Below average financial risk profile

GC has below average financial risk profile marked by tangible net worth of Rs. 2.97 crore as on 31 March, 2017 as against Rs. 3.01 crore in the previous year. The net worth includes unsecured loans of Rs. 1.00 crore as on 31 March, 2017, considered as quasi equity. The adjusted gearing is relatively high at 1.77 times as on 31 March, 2017 which fell from 1.83 times as on 31 March, 2016. The aggregate debt of Rs. 5.24 crore mainly consists of term loans of Rs. 1.16 crore and

working capital borrowings of Rs. 4.08 crore as on 31 March, 2017. The Interest Coverage Ratio (ICR) stood at 2.13 times for FY2017 as against 2.05 times in FY2016. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at a comfortable 2.14 times as on 31 March, 2017 as against 2.89 times as on 31 March, 2016. SMERA expects the financial risk profile to improve, albeit moderately in the near to medium term in the absence of major debt funded capex plans.

Agro climatic risks

The firm is exposed to agro climatic risks considering that cotton bales is an agro commodity.

Highly fragmented cotton ginning industry

Cotton prices are regulated by the government through MSP (Minimum Support Price). However, the purchase and selling price depend on the prevailing demand-supply situation restricting bargaining power with suppliers and customers. Adverse movement of cotton prices further impacts profitability.

Inherent capital withdrawal risk

The firm is exposed to capital withdrawal risk considering its partnership constitution.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of GC to arrive at the rating.

Outlook - Stable

SMERA believes that GC will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or profit margins, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	47.63	25.07	21.27
EBITDA	Rs. Cr.	1.16	1.16	1.13
PAT	Rs. Cr.	0.37	0.29	0.20
EBITDA Margin	(%)	2.45	4.62	5.32
PAT Margin	(%)	0.77	1.15	0.95
ROCE	(%)	11.04	10.96	25.34
Total Debt/Tangible Net Worth	Times	1.77	1.83	2.32
PBDIT/Interest	Times	2.13	2.05	1.65
Total Debt/PBDIT	Times	4.50	4.77	4.49
Gross Current Assets (Days)	Days	55	92	100

Any other information:

Not Applicable

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>

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

None

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	6.00	SMERA BB-/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.03	SMERA BB-/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.30	SMERA BB-/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.03	SMERA BB-/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.48	SMERA BB-/ Stable (Assigned)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	2.16	SMERA BB-/ Stable (Assigned)

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ABOUT SMERA

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