

Press Release

Sri Bhagyalaxmi Cotton Industries



12 March, 2018

Rating Assigned

Total Bank Facilities Rated	Rs. 12 crore
Long Term Rating	SMERA B / Stable (Assigned)

Rating Rationale

SMERA has assigned long term rating of '**SMERA B**' (**read as SMERA B**) to the above mentioned bank facilities of 'Sri Bhagyalaxmi Cotton Industries' (SBCI). The outlook is '**Stable**'.

SBCI, established as a partnership firm in 2016 by Mr. Revuri Somaiah and family is engaged in the ginning and pressing of raw cotton at Warangal district, Telangana. The firm has installed capacity of 1200 quintals per day.

Key rating drivers

Strengths

Experienced management

The Managing Partner, Mr. Revuri Somaiah has more than a decades experience in the said line of business. SMERA believes that SBCI will benefit from its experienced management.

Proximity to raw materials

The firm benefits from the proximity of its manufacturing facilities to raw cotton growing areas.

Weaknesses

Nascent stage of operations

The firm was established on 22 January, 2016 and commenced operations from October 2016. For the six months ended FY2017, the firm generated revenue of Rs. 79.79 crore. Further, during 10FY2018, the firm posted revenue of around Rs. 70 crore. SMERA believes that the firm's ability to scale up operations will remain crucial in maintaining a stable credit risk profile.

Moderate financial risk profile

The financial risk profile is moderate marked by net worth of Rs. 2.08 crore as on 31 March, 2017. The gearing stood high at 3.83 times as on 31 March, 2017 due to high debt of Rs. 7.96 crore. Of the total debt of Rs. 7.96 crore, long term loans constitute Rs. 5.20 crore and short term loans of Rs. 2.76 crore (In FY2017, the bank has sanctioned Rs. 5.00 crore for purchasing plant and machinery). The Interest Coverage Ratio stood at a moderate 2.06 times for FY2017. The

Total outside Liabilities to Total Net Worth (TOL/TNW) stood high at 11.41 times as on 31 March, 2017.

Highly competitive and fragmented industry

Cotton ginning is a low margin business with limited value addition. As a result, the bargaining power with customers is limited. Further, the industry is fragmented and competitive with a large number of unorganised players.

Volatility in raw material prices, unfavourable 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 further restricts the firm's bargaining power with suppliers. Adverse movements in cotton prices can impacts profitability. The firm is also exposed to unfavourable changes in regulations.

Analytical approach:

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

Outlook – Stable

SMERA believes that SBCI will maintain a stable outlook in the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the firm registers growth in scale of operations while achieving sustained improvement in profit margins and financial risk profile. Conversely, the outlook may be revised to 'Negative' if the firm fails to achieve expected revenues or deterioration in the financial risk profile.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	79.79	-	-
EBITDA	Rs. Cr.	0.82	-	-
PAT	Rs. Cr.	0.03	-	-
EBITDA Margin	(%)	1.03	-	-
PAT Margin	(%)	0.03	-	-
ROCE	(%)	8.52	-	-
Total Debt/Tangible Net Worth	Times	3.83	-	-
PBDIT/Interest	Times	2.06	-	-
Total Debt/PBDIT	Times	9.50	-	-
Gross Current Assets (Days)	Days	90	-	-

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.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	7.00	SMERA B/ Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA B/ Stable (Assigned)

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ABOUT SMERA

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