

Press Release

SRI BHAGYALAXMI COTTON INDUSTRIES

May 21, 2019

Rating Upgrade



Total Bank Facilities Rated*	Rs. 12.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Upgraded from ACUITE B /Stable)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE B**' (read as **ACUITE B**) to the Rs. 12.00 crore bank facilities of SRI BHAGYALAXMI COTTON INDUSTRIES (SBCI). The outlook is '**Stable**'.

The rating upgrade takes into account Stabilisation of the firm's operations post commencement of commercial operations in FY2016, moderate business risk profile, efficient working capital management and moderate cash accruals to repayment obligations. However, the rating is partly constrained by weak financial risk profile and stretch in liquidity.

SBCI is a Warangal-based partnership firm established in 2016 by Mr. Revuri Somaiah and his family members as partners. It is engaged in ginning and pressing of raw cotton. The manufacturing facility is located at Warangal district (Telangana) with an installed capacity of 1200 quintals per day.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SBCI to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

The promoters are vintage people with presence in the cotton industry for more than a decade. This helped in building healthy relationship with its suppliers and customers to ensure a steady raw material supply and repeat business. Though it started its operations during FY2017, the firm has stabilised as reflected in improvement of its revenues from Rs.79.8 crore in FY2017 to Rs.118.1 crore in FY2018, though slipped to about Rs.96.96 crore in FY2019 (Provisional). The slippage in volume is owing to processing of cotton on job work for Cotton Corporation of India (CCI). Acuite believes that promoter's experience and opening a new processing unit are expected to support operational efficiencies and improve its business risk profile over the medium term.

• Efficient working capital management

The firm has efficient working capital operations as evident from its Gross Current Assets (GCA) of 92 days as on March 31, 2018 as against 90 days as on March 31, 2017. The firm's working capital cycle stood at 34 days in FY18 which deteriorated from 17 days in FY17 on account of sharp increase in debtor days from 49 in FY17 to 74 in FY18. The credit terms are in the range of 70-90 days. This is on account of last quarter being peak sales season. However, inventory improved from 42 days in FY17 to 19 days in FY18. October – March being peak season of operations for cotton, the bank limit utilisation is high at about 98 per cent over six months through March, 2019. Acuite believes that with low margin business and business cycle, the operations continue to be at similar levels over the medium term.

Weaknesses

• Weak financial risk profile

Financial risk profile of the firm is marked by high gearing and total outside liabilities to total net worth (TOL/TNW), and weak debt protection metrics. Its gearing and TOL/TNW are high at 4.38 and 10.59 times in FY2018 against 3.83 and 11.41 times in FY2017; high owing to limited track record of operations of the firm and seasonal operations skewed towards last quarter. Its debt protection metrics of interest

coverage ratio and net cash accruals to total debt (NCA/TD) are moderate at about 2.06 times and 0.09 times in FY2018. Its profitability margins are modest, though in line with the industry trend at about 2 per cent. The firm has no significant capex plans and with modest accruals and repayment obligations, the financial risk profile is expected to be at similar levels over the medium term.

• **Vulnerable to fluctuations in raw material prices and regulatory changes**

The profit margins are exposed to fluctuations in raw material (raw cotton) price, which depend upon various factors such as seasonality, climatic conditions, international demand and supply situations and export policy among others. It is also exposed to regulatory risks with regards to the minimum support price (MSP) set by the Government. FY2017 being first year of operations, its operating margins are low at 1.03 per cent improved to about 2 per cent in FY2018 and FY2019 (provisional) respectively. Sustainability of the profitability margins amid volatile raw material prices is key rating sensitivity factor.

• **Intense competition and fragmented industry**

SBCI faces stiff competition from other small and unorganised players in the industry, which limits the bargaining power with customers and suppliers, and hence, exerts pressure on its margins.

Liquidity position:

Liquidity profile of the firm is moderate marked by moderate cash accruals to repayment obligations and efficient working capital management. The firm has reported cash accruals of Rs.1.24 crore against a repayment obligation of Rs.0.82 crore in FY2018. It is expected to generate cash accruals in the range of Rs.1.10-1.50 crore over the medium term, against which its repayment obligations are about Rs.0.82 crore over next two years which gives adequate cushion for the incremental working capital requirements and the liquidity. The firm has cash and bank balances of Rs.0.36 crore as on March 31, 2018. Working capital utilisation is about 98 per cent on an average for the last six months through March 2019. The current ratio stood at 1.05 times for FY2018. Acuite believes that the liquidity profile continues to be moderate supported by moderate accruals.

Outlook: Stable

Acuite 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 significant growth in scale of operations while registering sustained improvement in profitability margins and improving its capital structure through equity infusion. The outlook may be revised to 'Negative' in case of any significant decline in its revenues or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	118.10	79.79	-
EBITDA	Rs. Cr.	2.41	0.82	-
PAT	Rs. Cr.	0.50	0.03	-
EBITDA Margin	(%)	2.04	1.03	-
PAT Margin	(%)	0.42	0.03	-
ROCE	(%)	12.56	17.03	-
Total Debt/Tangible Net Worth	Times	4.38	3.83	-
PBDIT/Interest	Times	2.06	2.06	-
Total Debt/PBDIT	Times	5.59	4.75	-
Gross Current Assets (Days)	Days	92	45	-

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Cr.)	Ratings/Outlook
12-Mar-2018	Cash Credit	Long Term	7.00	ACUITE B / Stable (Assigned)
	Term Loan	Long Term	5.00	ACUITE B / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE B+ / Stable (Upgraded from ACUITE B/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B+ / Stable (Upgraded from ACUITE B/Stable)

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>P Krishi Keyan Analyst - Rating Operations Tel: 040-40274590 krishi.keyan@acuiteinratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.