

Press Release

FIRMA COTTON INDUSTRIES

March 26, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 5.22 Cr.
Long Term Rating	SMERA B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B**' (read as SMERA B) on the Rs. 5.22 crore bank facilities of FIRMA COTTON INDUSTRIES. The outlook is '**Stable**'.

Firma Cotton Industries (FCI) was established in 2007 by Mr. Manjurali Yusufbhai Patel and family. The firm is engaged in ginning and pressing of raw cotton and crushing of cotton seeds. The installed capacity stands at 300 bales per day. The firm majorly caters to spinning mills and traders in Gujarat, Maharashtra and others states.

Key Rating Drivers

Strengths

- **Experienced management**

FCI is a Gujarat-based partnership firm started in 2007 by Mr. Manjurali Yusufbhai Patel and other partners. The partners possess experience of around a decade in the cotton industry. Thus, FCI benefits from its experienced management.

- **Proximity to raw material**

The ginning unit is located in Gujarat, which has a flourishing textile industry with easy availability of raw material.

Weaknesses

- **Leveraged capital structure and weak coverage indicators**

FCI has below average financial risk profile marked by low networth at Rs. 2.04 crore as on 31st March, 2017 as against Rs. 1.54 crore as on 31st March, 2016. The gearing stood high at 3.97 times as on 31st March, 2017 but is expected to improve in near future. The Interest Coverage Ratio stood at 1.28 times for FY2017 as against 1.29 times in FY 2016. The total debt of Rs. 8.08 crore mainly comprises working capital limit of Rs. 7.04 crore and unsecured loan of Rs. 1.04 crore. The Total Outside Liabilities to Tangible Networth (TOL/TNW) stood at 5.26 times as on 31st March, 2017 as against 5.52 times in the previous year. The Net Cash Accruals to Total Debt (NCA/TD) stood at 0.02 times in FY2017 and FY2016.

- **Highly fragmented cotton ginning industry**

FCI operates in a highly fragmented industry with a large number of unorganized players resulting in low bargaining power against both- its customers as well as its suppliers. Further, there's limited value addition in cotton ginning process result in thin profitability.

- **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.

- **Working capital intensive nature of operations**

The operations are working capital intensive marked by GCA (gross current assets) of 876 for FY2017 as against 256 days for FY2016. This is mainly on account of high inventory days of 950 for FY2017 as against 212 days in FY2016. The firm was affected by demonetisation and had to discontinue operations for few months in FY2017. Further the utilisation of working capital borrowings stood at ~100 percent for last six months from September to February 2018.

Analytical Approach

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

Outlook: Stable

SMERA believes FCI will maintain a Stable outlook over the medium term owing to experienced management and long track record of operations. The outlook may be revised to Positive in case the company registers more than expected growth in revenues while achieving improvements in its profitability. Conversely the outlook may be revised to Negative in case of deterioration in the financial risk profile and intensive working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	4.61	11.79	13.73
EBITDA	Rs. Cr.	0.89	0.89	0.79
PAT	Rs. Cr.	0.01	0.00	0.01
EBITDA Margin	(%)	19.40	7.57	5.75
PAT Margin	(%)	0.15	0.02	0.08
ROCE	(%)	7.10	7.07	13.21
Total Debt/Tangible Net Worth	Times	3.97	5.47	6.16
PBDIT/Interest	Times	1.28	1.29	1.36
Total Debt/PBDIT	Times	8.97	9.34	9.74
Gross Current Assets (Days)	Days	876	256	224

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>
- 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>

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not	Not	5.22	SMERA B / Stable

	Applicable	Applicable	
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