

Press Release

Shri Ratan Ginning and Pressing Factory

12 April, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 6.65 crore
Long Term Rating	SMERA B / Stable (Assigned)
Short Term Rating	SMERA A4 (Assigned)

*Refer Annexure for Details

Rating Rationale

SMERA has assigned a long term rating of '**SMERA B**' (**read as SMERA B**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 6.65 crore bank facilities of 'Shri Ratan Ginning and Pressing Factory' (SRGPF). The outlook is '**Stable**'.

Established in 2016, SRGPF is a partnership firm promoted by Mr. Ravi Ratanlal Bhutada and his family. It engaged in ginning and pressing of raw cotton. SRGPF's manufacturing facility is located at Dhamangaon, Maharashtra with an installed capacity of 30,000 bales per annum. The firm has started commercial operations in December 2016.

Key rating drivers

Strengths

Experienced management

The managing partner of the firm Mr. Ravi Ratanlal Bhutada has more than a decade experience in the agriculture sector. He is also running a partnership firm "Kastakar Krushi Kendra" which is engaged in trading of agriculture seeds, fertilizers and insecticides from past 12 years. SMERA believes that, SRGPF will benefit from its experienced management in the agriculture sector.

Proximity to raw materials source

SRGPF's manufacturing facility located at Maharashtra, which is one of the major cotton producing regions in India. The proximity of the manufacturing facility to raw material source will ensure steady supply of raw materials at competitive rates.

Weaknesses

Nascent stage of operations

The firm was established on 22 January 2016 and commenced its operations from December 2016. During 4 months of operations in FY2017, the firm generated revenues of Rs. 24.81 crore. Further during 10MFY2018, the firm has generated revenues of around Rs. 20 crore. SMERA believes that the company's ability to scale up operations will remain key sensitivity factor.

Below average financial risk profile

The gearing stood high at 2.38 times as on 31 March, 2017 on account of low net worth of Rs. 1.64 crore and total debt of Rs. 3.91 crore. Of the total debt, long term loan constitute Rs. 2.46

crore, unsecured loans of Rs. 0.07 crore and short term loan of Rs. 1.38 crore. Further, total outside liabilities to total net worth (TOL/TNW) stood at 4.28 times and net cash accruals to total debt (NCA/TD) stood at 0.07 times in FY2017.

Fragmented industry, low value addition

The company operates in a highly fragmented industry with a large number of organised and unorganised players. This results in low bargaining power with customers as well as suppliers. Further, the operations entail limited value addition, thereby capping margins and profitability.

Volatility in raw material prices and government regulation

Cotton, the primary raw material, is procured at MSP (Minimum Support Price) stipulated by the government. However, the selling price of the output depends on the prevailing demand-supply situation, thereby impacting margins and profitability.

Analytical approach:

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

Outlook – Stable

SMERA believes that SRGPF will maintain a stable outlook in the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case if the company registers more than expected revenue and net cash accruals while improving financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenues and net cash accruals leading to a below average financial risk profile, particularly liquidity.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	24.81	0.00	0.00
EBITDA	Rs. Cr.	0.45	0.00	0.00
PAT	Rs. Cr.	0.05	0.00	0.00
EBITDA Margin	(%)	1.83	0.00	0.00
PAT Margin	(%)	0.22	0.00	0.00
ROCE	(%)	8.12	0.00	0.00
Total Debt/Tangible Net Worth	Times	2.38	0.00	0.00
PBDIT/Interest	Times	2.65	0.00	0.00
Total Debt/PBDIT	Times	8.57	0.00	0.00
Gross Current Assets (Days)	Days	79	0	0

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. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	2.60	SMERA B / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA B / Stable (Assigned)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	0.05	SMERA A4 (Assigned)

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ABOUT SMERA

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