

## Press Release

### Maabalaji Cottgin Private Limited

May 09, 2018

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs.9.00 Cr.
<b>Long Term Rating</b>	SMERA B+/ Stable (Assigned)

*\*Refer to annexure for details*

### Rating Rationale

SMERA has assigned long term rating of '**SMERA B+**' (read as **SMERA B plus**) on the Rs.9.00 crore bank facilities of Maabalaji Cottgin Private Limited (MCPL). The outlook is '**Stable**'.

M/s Maabalaji Cottgin Private Limited, incorporated in September, 2017, located at Warangal (Telangana) is promoted by Mr. Venkateshwarlu Sriram and his family. The Company is engaged in trading of cotton lint. Mr. Shravan Kumar Sriram, Mr. Venkateshwarlu Sriram, Ms. Ankathi Sushma and Ms. Nithisha Sriram are the directors of the company. The company has commenced its commercial operations in April, 2018.

### Key rating drivers

#### Strengths

**Extensive experience of promoters:** Mr. Venkateshwarlu Sriram has more than 30 years of experience in the cotton industry through his association with other firms involved in the same line of business.

**Locational advantage:** MCPL benefits in terms of easy access to quality material and lower transportation cost due to its proximity to material suppliers i.e. ginning companies.

#### Weaknesses

**Weak financial risk profile:** MCPL started the trading operations from April 2018. Primarily, the activity is trading of cotton lint which is a low margin business. The same is expected to weigh high on the Total outside Liabilities to Total Net Worth (TOL/TNW) which is estimated at 2.5 times over the medium term. The Gross Current Asset (GCA) days are expected to be around 80-90 which is likely to keep the debt protection metrics of Interest Coverage Ratio and Net Cash Accruals to Total Debt (NCA/TD) weak.

**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 like seasonality, climatic conditions, international demand and supply situations, export policy among others. It is also exposed to regulatory risks with regards to the minimum support price (MSP) set by the Government.

**Intense competition and fragmented industry:** MCPL 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.

**Outlook: Stable**

SMERA believes that the MCPL will maintain a 'Stable' outlook in the medium term on account of the extensive experience of the promoter in cotton industry. The outlook may be revised to 'Positive' in case the company registers higher-than-expected revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in working capital cycle or deterioration in the financial risk profile.

**About the rated entity Financials**

Not Applicable

**Any other information:**

Not Applicable

**Analytical approach:**

SMERA has considered the standalone business and financial risk profile of Maabalaji Cottgin Private Limited to arrive at this rating.

**Applicable Criteria**

- Trading Entities: <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.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):**

Not Applicable

**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
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA B+/Stable (Assigned)

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## ABOUT SMERA

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