

Press Release

Chater Bhuj Cotton And Flour Mills

September 21, 2018

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 13.00 Cr. (Enhanced from Rs.9.50 crore)
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the previous facility of Rs.9.50 crore and assigned the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the enhanced facility of Rs.3.50 crore bank facilities of Chater Bhuj Cotton and Flour Mills (CBCFM). The outlook is '**Stable**'.

CBCFM based at Fatehabad (Haryana) was started by Mr. Chater Bhuj (Proprietor) in 1993. The proprietorship concern is engaged in manufacturing, processing and trading of cotton bales, seeds, oil and cakes. It also manufactures and sells mustered oil, atta and wheat. It caters to clients based locally and in Delhi, Ahmedabad to name a few.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the CBCFM for arriving at the rating.

Key Rating Drivers:

Strengths

- **Experienced promoter**

The promoter has over four decades of experience in cotton ginning and trading business. The extensive experience of the promoter has helped CBCFM to maintain long relationships with the customers and suppliers.

- **Modest financial risk profile**

The financial risk profile is modest marked by moderate net worth, gearing and interest coverage ratio. The net worth stood at Rs.5.45 crore as on 31 March, 2018 as compared to Rs.2.11 crore as on 31 March, 2017 and Rs.3.88 crore as on 31 March, 2016. The gearing (debt-equity) stood moderate at 1.73 times as on 31 March, 2018 which has improved from 4.41 times as on 31 March, 2017 and 2.03 times in the year before. The debt service coverage ratio and interest coverage ratio stood at 1.35 times for FY2018 as compared to 1.32 times for FY2017 and 1.40 times for FY2016.

- **Improvement in working capital cycle**

CBCFM registered improvement in working capital cycle. The Gross Current Asset days improved to 96 in FY2018 which stood at 100 in FY2017 and 142 days in FY2016. Further, the working capital cycle days stood at 83 for FY2018 as compared to 68 days in FY2017 and 96 days in FY2016. This is on account of moderate inventory holding period which stood at 23 days in FY2018 and 27 days in FY2017. The debtor days stood at 69 days in FY2018 and 70 days in FY2017.

Weaknesses

• Low margins

The EBITDA margin stood low at 2.07 percent in FY2018 and 1.99 percent in FY2017 against revenue of Rs.61.07 crore in FY2018 as compared to Rs.55.71 crore in FY2017. Further, the PAT margin stood at 0.41 percent in FY2018 as compared to 0.38 percent in FY2017 and 0.57 percent in FY2016. The vulnerability in raw material prices and implementation of minimum support price has significant impact on margins in FY2018.

• Highly competitive and fragmented industry

CBCFM operates in a highly fragmented industry with large number of unorganised players resulting in low bargaining power with customers and suppliers. Besides, there is limited value addition in the process resulting in the company operating at thin profitability.

Outlook: Stable

Acuite believes that CBCFM will maintain a 'Stable' outlook over the medium term owing to its established presence in the ginning industry and experienced management. The outlook may be revised to 'Positive' if the scale of operations increases substantially, while improving its operating profitability and financial risk indicators. Conversely, the outlook may be revised to 'Negative' if the profit margins decline in the medium term owing to fluctuations in raw material prices and deterioration in financial risk profile is observed.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	61.07	55.71	40.25
EBITDA	Rs. Cr.	1.26	1.11	1.07
PAT	Rs. Cr.	0.25	0.21	0.23
EBITDA Margin	(%)	2.07	1.99	2.66
PAT Margin	(%)	0.41	0.38	0.57
ROCE	(%)	8.98	9.13	11.32
Total Debt/Tangible Net Worth	Times	1.73	4.41	2.03
PBDIT/Interest	Times	1.35	1.32	1.40
Total Debt/PBDIT	Times	7.48	8.34	7.33
Gross Current Assets (Days)	Days	96	100	142

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

Not Applicable

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. Crore)	Ratings/Outlook
01-Jun-2018	Cash Credit	Long Term	9.50	ACUITE BB- / Stable (Assigned)

*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	9.50	ACUITE BB- / Stable (Reaffirmed)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BB-/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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