

Press Release

COTTON BUDS INC

September 07, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 5.45 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 5.45 crore bank facilities of COTTON BUDS INC (CBI). The outlook is 'Stable'.

Located in Tirupur (Tamil Nadu), Cotton Buds Inc (CBI) is engaged in manufacture of Ready Made Garments such as T-shirt, pants, payjamas among others for men women and kids. It exports 100 percent of its products to European and American market.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced promoters:**

CBI is promoted by partners, Mr. T K Nagamani and Mr. A R Thangavel, who have around two decades of experience in the industry. This has helped them establish long term relationship with customers and suppliers.

Weaknesses

- Working capital intensive operations**

CBI's operations are working capital intensive marked by high Gross Current Asset (GCA) of 178 days in FY2018 (Provisional) compared to 120 days in FY2017. The GCA days are mainly dominated by deterioration in debtor days of 78 in FY2018 (Provisional) compared to 22 days in FY2017. Acuite believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

- Competitive and fragmented industry**

CBI operates in a highly competitive and fragmented industry characterised by large number of unorganised players affecting revenues and margins as witnessed in the past. The revenues of the firm declined from Rs.18.07 crore in FY2016 to Rs.13.93 crore in FY2017 and Rs.16.18 crore in FY2018 (Provisional). The operating margins of the firm also declined from Rs.8.60 crore in FY2017 to Rs. 8.31 crore in FY2018 (Provisional).

- Capital withdrawal risk**

The financial profile of CBI is susceptible to the inherent risk of capital withdrawal owing to the partnership constitution of the firm. The same has not been observed in FY2017 when the partners' capital deteriorated to Rs.2.20 crore as against Rs.5.26 crore in FY2016.

Outlook: Stable

Acuite believes CBI will maintain 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the revenues or profit margins or in case of deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	16.18	13.93	18.07
EBITDA	Rs. Cr.	1.34	1.20	1.45
PAT	Rs. Cr.	0.40	0.34	0.68
EBITDA Margin	(%)	8.31	8.60	8.02
PAT Margin	(%)	2.49	2.42	3.74
ROCE	(%)	11.41	11.41	16.13
Total Debt/Tangible Net Worth	Times	2.81	3.02	0.69
PBDIT/Interest	Times	2.20	2.37	3.07
Total Debt/PBDIT	Times	4.91	4.15	2.39
Gross Current Assets (Days)	Days	178	120	125

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

CRISIL vide its rationale dated September 25, 2017 stated, "CRISIL has been consistently following up with Cotton Buds Inc (CBI) for obtaining information through letters and emails dated July 17, 2017 and August 14, 2017 among others, apart from telephonic communication. However, the issuer has remained non cooperative."

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A4 (Assigned)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE B / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE B / Stable (Assigned)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-67141111 aditya.gupta@acuite.in</p> <p>Salome Farren Analyst - Rating Operations Tel: 022-67141164 salome.farren@acuiteratings.in</p>	<p>Varsha Bist Manager – Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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