

18TH JULY, 2013

RATING RATIONALE

Instrument	Amount (Rs. crores)	Rating
Packing Credit Foreign Currency	395.00	SMERA BBB-/stable/A3 (Assigned)
Bill Discounting Facility	40.00	SMERA A3 (Assigned)
Proposed short/long term facilities	15.00	SMERA BBB-/stable/A3 (Assigned)

SMERA has assigned ratings of '**SMERA BBB-**' (read as SMERA Triple B minus) and '**SMERA A3**' (read as SMERA A Three), to Bhadresh Trading Corporation Limited's (BTCL) Rs.450 crores bank facilities. The outlook is **Stable**.

The ratings derive strength from the company's long track record of operations, experienced management, established presence in major cotton growing region and strong position as a top cotton exporter in India. The ratings are however constrained by geographic concentration of the company's revenues and susceptibility of the business operations to changes in government policies. The ratings also factor in the company's moderate financial profile and working capital intensive business model.

BTCL's exports accounted for around 30 per cent of India's total cotton exports in FY2011-12. The company was able to maintain its sales volumes during FY2012-13 despite an unfavourable demand scenario arising from the imposition of import duty on cotton bales in China (exports to China account for more than 90 per cent of BTCL's total revenues). The ratings also favourably factor in the backward integration undertaken by the company with the acquisition of two of the largest ginning mills in Rajkot. Furthermore, BTCL gets a steady supply of quality raw material from its contract farming activity covering ~700 acres and tie ups with more than 1,000 cotton ginners. The ratings are further supported by the company's established track record of four decades and qualified and experienced management.

The ratings are however constrained by geographic concentration risk as exports to China account for more than 90 per cent of BTCL's total revenues. Any action initiated to curb cotton imports in China may affect the business prospects of BTCL. Although BTCL has shown substantial growth in revenues during FY2011-12, the same is not reflected in its PAT margins mainly on account of high interest cost. As the company operates in a working capital intensive industry, financing of revenue growth is likely to exert additional pressure on the PAT margins. Moreover, as raw cotton export volumes are regulated through a quota system, any change in government policy (i.e. higher quota

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for any particular year) has a direct impact on the domestic prices of raw cotton and could result in lower realizations and profit for the company.

Rating Sensitivity Factors

- Ban on raw cotton export by the Government of India (GOI).
- Maintaining market position in a highly competitive business environment.
- Keeping the working capital requirements in check given the working capital intensive nature of operations.

Outlook-Stable

SMERA believes that BTCL's outlook will remain stable over the medium term driven by the company's healthy near term business prospects. In FY 2012-13, the company has registered revenues of Rs.5,400 crores till February 2013. The outlook may be revised to 'Positive' in case the company achieves effective working capital management, better capital structure and higher than expected cash flows. The outlook may be revised to 'Negative' in case the company borrows additional debt for working capital and reports lower than expected margins.

About the company

Bhadresh Trading Corporation was established in 1964 as a partnership firm by Mr. Bhadresh Mehta and his family members. In FY 2008-09, the firm was converted into a closely held public limited company.

BTCL is mainly engaged in exporting raw cotton to customers based in China, USA and Singapore.

BTCL reported PAT of Rs.32.44 crores on net sales of Rs.6,098.59 crores for FY2011-12, as compared with PAT of Rs.13.92 crores on net sales of Rs.2,627.36 crores for FY2010-11. BTCL's net worth stood at Rs.212.00 crores as on March 31, 2012, increasing from Rs.134.84 crores as on March 31, 2011.

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