

November 25, 2013

| Facilities                              | Amt<br>(Rs. Crore)                         | Ratings                      |
|---|--|------------------------------|
| Pre Shipment Credit in Foreign Currency | 700.00*<br>[Enhanced from Rs.450.00 crore] | SMERA A3 (Reaffirmed)        |
| Term Loan                               | 28.00                                      | SMERA BBB-/Stable (Assigned) |

\*Includes a sublimit of Post Shipment Credit of Rs.40.00 crore

SMERA has assigned ratings of '**SMERA BBB-**' (read as **SMERA Triple B Minus**) to the Rs.28.00 crore long-term bank facilities. The other ratings have been reaffirmed of Bhadresh Trading Corporation Limited (BTCL). The outlook is '**Stable**'. The ratings derive strength from the company's long track record of operations, strong market position as a top cotton exporter in India and established presence in major cotton growing region of India. The ratings are also supported by the company's experienced management. However, the ratings are constrained by the geographic concentration of the company's revenues and the susceptibility of the company's business to adverse changes in government policies. The ratings are further constrained by the company's moderate financial profile marked by high leverage and working capital-intensive operations.

BTCL, established in 1964, is a Mumbai-based company engaged in export of raw cotton. BTCL's exports accounted for more than 36 per cent of India's total cotton exports in FY2012-13 (refers to financial year, April 01 to March 31). The company maintained 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 favourably factor in the backward integration undertaken by the company with the acquisition of two of the largest ginning mills in Rajkot, Gujarat — a major cotton producing state in India. Furthermore, BTCL gets a steady supply of quality raw cotton from its contract farming activity (covering ~700 acres) and through tie-ups with more than 1,000 cotton ginners. The ratings are further supported by the company's qualified and experienced management.

BTCL is exposed to geographic concentration risk as exports to China account for more than 90 per cent of the company's total revenues. Any action initiated to curb cotton imports in China may affect the business prospects of the company. Although BTCL registered 12.00 per cent growth in revenues during FY2012-13, the company's PAT margin remained muted at 0.49 per cent during the same year on account of high interest cost. BTCL operates in a working capital-intensive industry and financing of revenue growth is likely to exert additional pressure on the company's profit margins.

**Disclaimer:** A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.smera.in](http://www.smera.in)) for the latest information on any instrument rated by SMERA.

**Rating Sensitivity Factors**

- Ban on raw cotton export by the Government of India.
- Maintaining market position in a highly competitive business environment.
- Achieving efficient working capital management.

**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. 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 requirements or in case the company reports lower-than-expected profit margins.

**About the company**

BTCL was established in 1964 as a partnership firm promoted by Mr. Vasantrai Mehta and his family members. In FY2008–09, 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, Singapore, Bangladesh and Pakistan. The company has recently diversified into trading of pulses and generation of solar power.

BTCL reported PAT of Rs.33.55 crore on net sales of Rs.6,747.51 crore for FY2012–13, as compared with PAT of Rs.32.44 crore on net sales of Rs.6,098.59 crore for FY2011–12. BTCL's net worth stood at Rs. 284.35 crore as on March 31, 2013, as compared with Rs.212.00 crore a year earlier.

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