



## Rating Rationale

### Parameshwara Cotton Agro Products

October 12, 2017

**Brickwork Ratings upgrades the ratings for the Bank Loan Facilities of ₹11.45 Cr of Parameshwara Cotton Agro Products (PCAP).**

Facility	Previous Rating Limits (₹ Crores)	Present Rating Limit (₹ Crores)	Tenure	Previous Rating (Feb 2016)	Present Rating
<u>Fund Based</u> <b>Cash Credit</b>	<b>8.50</b>	<b>9.25</b>	<b>Long Term</b>	BWR B+ (Pronounced BWR B) (Outlook: Stable)	<b>Upgraded to BWR BB-</b> (Pronounced BWR Double B Minus) (Outlook: Stable)
<b>Term Loan</b>	<b>3.18</b>	<b>2.20</b>			
<u>Non Fund Based</u> <b>BG</b>	<b>0.09</b>	-	<b>Short Term</b>	BWR A4 (BWR A Four)	<b>BWR A4 (Withdrawn)</b>
<b>Total</b>	<b>11.77</b>	<b>11.45</b>	<b>INR Eleven Crores and Forty Five Lakhs Only</b>		

*Please refer to BWR website [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the rating assigned*

### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of PCAP upto FY17, projected financials for FY19 and information and clarifications provided by the Firm.

The rating continues to factor in promoter's experience in the ginning industry, locational advantage, improved revenues and satisfactory debt protection indicators. However the rating is constrained by highly levered capital structure, working capital intensive operations, constitution of the firm, highly competitive and fragmented industry structure with low entry barriers, vulnerability of profit margins to fluctuations in raw cotton prices, which are subject to seasonality and regulatory risk.



Going forward, the ability of the firm to enhance its scale of operations, improve profitability and capital structure and manage its inventory levels efficiently shall be the key rating sensitivities.

### **Key Rating Drivers:**

#### **Weaknesses:**

##### High levered capital structure:

The capital structure continues to remain leveraged with a gearing level of 2.95 times as on March 31, 2017 due to increase in debt to ₹ 19.01 crores in FY17. However, the promoters propose to infuse capital which may improve the financial risk profile of the firm.

##### Highly competitive and fragmented industry structure

Majority units operating in the cotton ginning sector are in the small scale sector. This has resulted in the fragmented nature of the industry as well as intense competition within the players.

##### Working capital intensive nature of operations:

The operations of the firm remain working capital intensive in nature due to high inventory of cotton to reduce the overall cost of procurement.

##### Susceptible of cotton price fluctuation and seasonality risk

The cotton procurement is seasonal in nature, harvesting cycle from November to February every year. Prices of raw cotton are highly volatile in nature and depend upon production, yield and climatic conditions.

### **Strengths**

#### Promoters' experience and Established Operations:

PCAP has been engaged in the cotton ginning business for more than a decade.

#### Locational Advantage:

Proximity of the plant to the cotton producing belt provides easy accessibility to agro-based raw material and firm benefits from lower logistic expenditure.

#### Improved revenue position and satisfactory debt protection metrics:



The company has reported net sales of ₹66.97 crores which is growing at a CAGR of 44.82% since its inception. Debt coverage indicators also remained satisfactory with DSCR at 1.12 times and interest coverage at 1.55 times in FY17.

### **Rating Outlook: Stable**

BWR believes the PCAP's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

### **About the Firm**

Parameshwara Cotton Agro Products is a partnership concern established in January 2013 and commenced its operations in December 2013. Promoted by Mr. Krushna Agarwal (Managing Partner) along with other four partners. The firm has installed automation, cotton ginning and pressing unit with primary and secondary filters in Gollapally Village, Karimnagar District, Telangana. It has installed 36 golden jubilee double roll gins with a ginning and pressing capacity of 400 bales per day.

### **Firm's Financial Performance**

Net sales from operations was at ₹66.97 crores in FY17 against ₹57.6 crores in FY16. The net profit of the Firm was at ₹0.19 crores in FY17 as against ₹0.10 crores in FY16.



**Rating History for the last three years (including withdrawn/suspended ratings)**

Instrument/ Facility	Current Rating (2017)			Rating History		
	Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	2016	2015	2014
Fund Based	Long Term	11.45	BWR BB- Upgraded	BWR B+	-	BWR B+
Non Fund Based	Short Term	-	BWR A4 (Withdrawn)	BWR A4		
<b>Total</b>		<b>11.45</b>	<b>INR Eleven Crores and Forty Five Lakhs Only</b>			

**Key Financial Indicators:**

Key Ratios	FY17
Net Sales (₹ crores)	66.97
EBITDA (₹ crores)	2.04
PAT (₹ crores)	0.19
Tangible Neworth (₹ crores)	4.81
Debt to Equity Ratio (Times)	2.95
Current Ratio (Times)	1.26

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)



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**Note on complexity levels of the rated instrument:**

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**About Brickwork Ratings**

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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