



Rating Rationale

Annapurna Cotton Impex

15 Mar 2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹6.00 Crores of Annapurna Cotton Impex

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
<u>Fund based</u> Cash Credit	6.00	Long Term	BWR BB- (Pronounced as BWR Double B Minus) Outlook : Stable
Total	6.00	INR Six Crores Only	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials of the Entity upto FY18, publicly available information and information / clarifications provided by the Entity's management.

The rating draws strength from the experienced promoters in the cotton ginning industry, moderate liquidity position. The rating favourably takes into account strategic location of the plant in one of the cotton producing belts. The rating is however constrained by leveraged capital structure due to low capital base, and weak debt protection metrics. The rating is further constrained on account of thin profitability margins and operating margins susceptible to cotton price fluctuations, seasonality associated with the cotton industry, its presence in the highly fragmented industry.

Going forward, the ability of the Entity to accelerate its scale of operations, increase its profit margins, efficiently manage its working capital and cash flows for timely servicing of interest/debt obligations and strengthening of overall financial risk profile shall be the key rating sensitivities

Description of Key Rating Drivers

Credit Strengths:

- ❖ The promoters have more than three decades of experience in the cotton industry. Further all the group companies are operated under common management and are engaged in the same line of business.
- ❖ The firm has moderate liquidity indicated by Current Ratio which stood at 1.48x as at FY18.
- ❖ The plant of the firm has location advantage in terms of proximity to the cotton producing belt. The plant of the firm is located in Sendhwa Madhya Pradesh which is one of the cotton producing belts.

Credit Risks:

- ❖ The firm has leveraged capital structure with low net worth of ₹2.98 crs as at FY18 declining from ₹3.69 crs in FY17 on account of withdrawal of capital by partners. Gearing level of the firm is high which stood at 1.80x as at FY18 improving marginally from 2.01x as at FY17. However the capital structure of the overall group is at moderate level
- ❖ The firm has weak debt protection metrics indicated by ISCR and DSCR which stood at 1.19x and 0.93x as at FY18
- ❖ Profitability margins of the group stood thin on account of the presence in the lowest segment of the textile value chain. During FY18, the group registered Operating Profit Margin (OPM) of 1.20% declining from 2.16% in FY17. Net Profit Margin (NPM) stood at 0.28% in FY18 as against 0.35% in FY17.
- ❖ Operations of cotton business are seasonal in nature with raw cotton prices highly volatile to climatic conditions, export policy of government, and prices in international market. Apart from this cotton ginning industry is highly fragmented with intense competition from large number of unorganised players.
- ❖ The firm has elongated working capital conversion cycle of 147 days as at FY18 on account of higher inventory holding period. However the working capital conversion cycle of the overall group is at moderate level.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Liquidity Profile

Current Ratio stood at moderate level at 1.48x as at FY18. Cash & Cash equivalent stood negligible at ₹0.09 crs. The working capital utilization is higher in peak periods and lower during non peak season.



Rating Outlook: *Stable*

BWR believes the **Annapurna Cotton Impex** 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 Company

Annapurna Cotton Impex is Partnership concern incorporated in 2012 by Goyal family. The firm is engaged in manufacturing and trading of cotton bales cotton seeds, cotton cake and wash oil. The manufacturing unit of the firm - is located at Sendhwa (Madhya Pradesh). The other associate concerns are Annapurna Cotex Pvt Ltd and Tirupati Fibres which are in the same line of business and share common management. Combined TOI of different entities stood at ₹164.44 crs as at FY18.

Company Financial Performance

Annapurna Cotton Impex reported Total Operating Income (TOI) of ₹21.04 crs and PAT of ₹0.08 crs in FY18 as against TOI of ₹20.26 crs and PAT of ₹0.08 crs in FY17.. Tangible Net worth (TNW) of the firm stood at ₹2.98 crs and Gearing stood high at 1.80x as on 31 March 2018.

Key Financial Indicators- Annapurna Cotton Impex

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Operating Revenue	₹ Cr	21.04	20.26
EBITDA	₹ Cr	1.18	1.09
PAT	₹ Cr	0.08	0.08
Tangible Net worth	₹ Cr	2.98	3.69
Total Debt/Tangible Net worth	Times	1.80	2.01

Rating History for the last three years

S.No	Instrument /Facility	Current Rating			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	2018	2017	2016
1)	Fund Based Cash Credit	Long Term	6.00	BWR BB- (Pronounced as BWR Double B Minus) Outlook : Stable	Not Rated	Not Rated	Not Rated
	Total		6.00	INR Six Crores Only			

Status of non-cooperation with previous CRA (if applicable)- CARE has migrated its ratings to Issuer Not Cooperating vide press release dated 12 Feb 2019 on account of non-cooperation by Annapurna Cotton Impex with CARE’s effort to undertake a review of the outstanding

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)



For any other criteria obtain hyperlinks from website

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For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

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