



Rating Rationale

Chaitanya Enterprises Delinters Factory

01 Sep 2017

Brickwork Ratings upgrades the rating for the Bank Loan Facilities of ₹ 12.91 Crores of M/s Chaitanya Enterprises Delinters Factory.

Particulars

Facility Rated	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Sep 19, 2016)	Present
Fund Based					
Cash Credit			Long Term	BWR B+ (BWR Single B Plus) (Outlook:Stable)	BWR BB- (BWR Double B Minus) (Outlook:Stable) Upgradation
Existing	5.00	6.50			
Proposed Additional Limit	4.00	3.00			
Term Loan[#]	4.06	3.41			
Total	13.06	12.91	(INR Twelve Crores and Ninety One Lakhs Only)		

[#] O/s amount of term loan as on Aug 23, 2017

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

Rating Upgraded:

Brickwork Ratings upgrades the rating for the long term facilities of M/s Chaitanya Enterprises Delinters Factory from 'BWR B+' to 'BWR BB-'.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results up to FY17, Projected financials up to FY19, publicly available information and information provided by the firm's management.

The rating derives its strength from extensive experience of partners in cotton industry, well diversified customer profile, established relationship with suppliers, improved revenue over the last year, infusion of capital, moderate financial risk profile marked by comfortable debt protection indicators and location advantage of being located in cotton-belt of Andhra Pradesh State i.e. Guntur. However, the rating is constrained by high gearing, susceptibility of profitability margins, intense competition from other cotton de-lint industries in its vicinity and limitations of partnership firm in terms of withdrawal of capital.

Going forward, ability of the firm to continue to improve its scale of operations and profitability margins, to reduce its gearing level by infusion of further capital, to manage its working capital efficiently will be the key rating sensitivities.



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).

Description of Key Rating Drivers

Key Rating Strengths

Experienced Partners: Mr. Annam Srinivasa Rao, Managing Partner of the firm has more than 11 years of experience in cotton ginning industry

Location Advantage: The firm is located at Guntur, Andhra Pradesh which is one of the biggest Cotton-belt regions.

Reputed Clientele Base: Functioning in the industry for more than 7 Years, the firm has established relationship with its clients.

Improvement in Financial Risk Profile: The firm has reported gearing level with debt equity of 3.84 X in FY17 as compared to 4.35 X in FY16. Debt Coverage indicators - ISCR and DSCR stood at 1.74 times and 1.14 times in FY17 and the firm was able to meet its debt obligations in a timely manner. The firm also infused ~₹ 0.94 Cr as Capital in FY17.

Key Rating Weaknesses

Fragmented Industry: As the industry is highly fragmented, the firm faces intense competition from other organized and un-organized cotton de-linters in its vicinity.

Constitutional Risk: Limitations of Partnership firm in terms of with drawl of Capital by partners.

Revenue Fluctuations: Fluctuations in revenue for the last three years on account of change in business model of the firm from trading activity to processing of white seed into black seed and trading of black seed and hulls.

Thin Profitability Margins: Volatility in raw material pricing, availability of white cotton seed in local markets, agriculture based business and cyclical nature of monsoon are some of the factors which may impact firm's profitability margins.

Rating Outlook: Stable

BWR believes the 'M/s Chaitanya Enterprises Delinters Factory' 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

M/s Chaitanya Enterprises Delinters Factory (CEDF) was established as a partnership firm on December 24, 2010. The firm's manufacturing unit is located at Chilakaluripet, Guntur District of Andhra Pradesh. Earlier, the firm was into trading of cotton lint, seed and cotton bales. From March 2015 onwards, firm started processing and trading of cotton seed into black seed along with trading activities. Mr. Annam Srinivasa Rao and Mrs. Annam Manimala are partners of the firm. CEDF has installed capacity of 100 tons per day with ~85% utilization. The firm operates in two shifts per day depending upon the orders and raw material availability. Major Customers of the firm are from Delhi and from surroundings of Guntur. Firm procures white seed cotton from local markets of Guntur through agents or traders. The firm's sister concern "M/s Chaitanya Enterprises" is engaged in cotton ginning & pressing.

Firm's Financial Performance

Based on Audited FY17, The operating income of the firm was at ₹ 52.49 Cr against ₹ 22.69 Cr in FY16. Firm has reported net profit of ₹ 0.05 Cr in FY17 against ₹ 0.03 Cr in FY16. The firm has reported total debt of ₹ 11.91 Cr in FY17.

As per the management, the firm has achieved revenue of ~ ₹ 2.00 Cr in FY18 (Apr 1, 2017 to Jul 31, 2017).

Key Parameters	FY15 (Audited)	FY16 (Audited)	FY17(Audited)
Net Receipts (₹ in Cr)	52.81	22.69	52.49
EBITDA (₹ in Cr)	0.22	1.09	1.65
PAT (₹ in Cr)	0.04	0.03	0.05
Tangible Net worth (₹ in Cr)	1.51	2.14	3.10
Total Debt/Tangible Net worth (In X)	0.99	4.35	3.84
Current Ratio (In X)	1.31	1.61	1.40

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

Instrument/Facility	Current Rating (2017)			Rating History		
	Type	Amount (₹ Cr)	Rating	2016 Sep, 19	2015	2014
Fund Based Cash Credit Term Loan	Long Term	9.50 3.41	BWR BB- (Outlook:Stable) Upgradation	BWR B+ (Outlook:Stable)	-	-
Total		12.91	(INR Twelve Crores and Ninety One Lakhs Only)			



Hyperlink/Reference to applicable Criteria

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

Analytical Contacts	Media
<i>KV Raju</i> <i>Head-MSME Ratings</i> analyst@brickworkratings.com	media@brickworkratings.com
	Relationship Contact
	bd@brickworkratings.com
Phone: 1-860-425-2742	

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, has also been 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 Nationalized 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, 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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