Rating Rationale

D M Cotton Industries

22 May 2018

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹ 8.59 Crores of D M Cotton Industries.

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	0.34	Long Term	BWR B+ (Pronounced as BWR Single B Plus) Outlook Stable
	8.25		
Total	8.59	INR Eight Crores and Fifty Nine Lakhs Only	

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

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon audited financial results of FY17, certified provisional financial statements of FY18, projected financial results of FY19, publicly available information and information/clarifications provided by the management.

The rating draws strength from the vast experience of the partners in cotton industry,locational advantage of being in cotton producing belts of Gujarat and the firm successfully being able to recover from GST implications in provisional FY18. However, the ratings are constrained by low scale of operations and thin profit margins, limited financial flexibility considering low capital base & inadequate coverage ratios. The firm's margins are also vulnerable to the adverse movements in raw cotton prices (governed by international factors) as well as domestic agro climatic conditions.

The ability of the firm to achieve growth in operations, to improve the profitability, to improve the gearing, to maintain its working capital efficiently and to improve its overall financial risk profile shall be the key rating sensitivity.

Description of Key Rating Drivers:

The partners of the firm Mr Sandip Shah and Mr Sunil Shah have long standing experience in the cotton ginning industry leading to established relations with suppliers and client.

The scale of operations remained low at Rs. 24.40 crore in FY2017. Further, due to the low value added nature of cotton ginning operations, coupled with stiff competition, resulted in low operating profitability at 2.65% and net profit margins at 0.04% in FY2017. However the firm has reported a revenue of Rs 44.04 crores in certified provisional FY18 results a growth of 80.49%. The capital structure continued to remain leveraged with a gearing of 1.96 times as on March 31, 2017. Low profitability and high debt level resulted in weak coverage protection metrics with interest coverage at 1.12 times as on March 31, 2017.

The profit margins are exposed to fluctuations in raw cotton prices, which depend upon various factors like seasonality, climatic conditions, global demand and supply situation, export policy, etc. Further, it is also exposed to the regulatory risks with regards to the MSP set by the Government.

The firm faces stiff competition from other small and unorganised players in the industry, which limits its bargaining power with customers and suppliers, and hence exerts pressure on its margins.

Any capital withdrawal, given the partnership nature of the constitution,could adversely impact the capital structure of the firm.

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).

Rating Outlook: ***Stable***

BWR believes the **D M Cotton Industries** 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

D M Cotton Industries (DCI) was established in 1998 as a partnership firm. The firm is engaged in the business of cotton ginning and pressing to produce cotton bales and cotton seeds and trading in raw cotton.The firm's manufacturing facility located in Surendranagar, Gujarat is equipped with 24 ginning machines and 1 pressing machine with an installed capacity of producing 300 bales per day or 51 MTPD. The promoters of the firm Mr Sandip Shah and Mr Sunil Shah have long standing experience in the cotton ginning industry

Company Financial Performance

TOI declined by 12.23% in FY17 as against FY16 and the firm reported revenue of Rs. 24.40 in FY17 vs Rs 27.80 Crs in FY16..The revenues however showed a growth in provisional FY 18 by achieving sales of Rs 44.04 crores till March 2018 and a PAt of Rs 0.02 crs..EBITDA and PAT stood at Rs. 0.65 Crs and Rs. 0.01 Crs respectively in FY17 against Rs. 0.88 Crs and Rs. 0.01 Crs respectively in FY16.

Rating History for the last three years

S.No	Instrument /Facility	Current Rating (2018)			Rating History		
		Type	Amount (₹ Crs)	Rating	2017	2016	2015
	Fund Based	Long Term	8.59	**BWR B**	**N.A**	**N.A**	**N.A**
	Total		**8.59**	**₹ Eight Crores and Fifty Nine Lakhs Only**			

Key Financial Indicators

Key Parameters	Units	2017	2016
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	24.40	27.80
EBITDA	₹ Cr	0.65	0.88
PAT	₹ Cr	0.01	0.01
Tangible Net worth	₹ Cr	3.22	2.91
Total Debt/Tangible Net worth	Times	1.96	2.62
Current Ratio	Times	1.38	1.16

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Infrastructure Sector
- Short Term Debt

For any other criteria obtain hyperlinks from website

Analytical Contacts	Media
Sushil Kumar Chitkara *Deputy General Manager Ratings* analyst@brickworkratings.com	media@brickworkratings.com **Relationship Contact** bd@brickworkratings.com
Phone: 1-860-425-2742	

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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 ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

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