



Rating Rationale

Darshan Cotton Industries

21 Nov 2019

Brickwork Ratings reaffirms the ratings for the bank loan facilities of Rs 8.00 Crs of Darshan Cotton Industries('DCI').

Particulars:

Facility #	Amount(₹ Crs)		Tenure	Rating*	
	Previous (04/07/2018)	Present		Previous (04/07/2018)	Present
<u>Fund Based</u>					
Cash Credit	8.00	8.00	Long Term	BWR B- (Stable) (Reaffirm)	BWR B- (Stable) (Reaffirm)
Total	8.00	8.00	(Rupees Eight Crores Only)		

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

#Annexure I provides details of bank wise facilities

Rating: Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financials of the firm FY18 and FY19, publicly available information and information/clarifications provided by the management of the firm.

The rating draws strength from the experience of the promoters in the cotton ginning industry, relationship with suppliers and customers and locational advantage. The rating is constrained by the below average financial risk profile marked by reduced revenues y-o-y, low net worth & moderate gearing and low profitability, inherent risk, volatile prices of raw materials, agro climatic risks and working capital intensive operations.

Going forward, the ability of the firm to increase its scale of operations with improved revenues and profits & profitability margins, and manage its working capital efficiently would be the key rating sensitivities.



Credit Strengths:

- **Experienced Partners:** Long experience of the partners in the cotton ginning industry. **One of the partners has about 51 years of experience** in the cotton industry
- **locational advantage:** Locational advantages of the unit of being in a cotton growing area.

Credit Risks:

- Small scale of operations.
- Risks inherent to the cotton industry in terms of availability and volatile prices of raw materials.
- Intense competition from other players in the industry.
- Adverse impact of policy changes like Demonetisation and GST.
- Working capital intensive nature of operations.

Liquidity

The firm has a comfortable liquidity position which is indicated by current ratio of 1.52 times

Analytical approach

While assigning the ratings, BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

Rating Outlook: Stable

BWR believes **Darshan 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 margins show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and margins show lower than expected figures.

About the Firm

Darshan Cotton Industries was established in 2011 at Bhainsa, Telangana. The firm is engaged in processing and ginning of cotton, with the unit being located at Bhainsa. The unit has a ginning capacity of 500000 Kgs per day of cotton kappas. Mr. Digambar Rao Mahashetty, Mr. Ramesh Mahashetty, Mrs. Neelavati Mahashetty and Mr Chetan Mahashetty are the partners.

Financial Performance

The firm reported Total Operating Income and PAT of Rs. 18.38 Cr and Rs. 0.03 Cr for FY19 as against Rs. 17.21 Cr and Rs. 0.00 Cr respectively in FY18. Total debt stood at Rs. 10.49 Cr as on March 31 2019. Networth stood at Rs. 4.04 Cr as on March 31st 2019.

Rating History for the last three years:

Sl No	Facility	Current Rating (2019)			Rating History		
		Type	Amount (Rs. Crs)	Rating	04.07.2018	30.5.2017	2016
	Cash Credit	Long Term	8.00	BWR B- (Stable) (Reaffirm)	BWR B- (Stable) (Reaffirm)	BWR B- (Stable) (Assign)	Not Rated
Total			8.00 (INR Eight Crores Only)				

Status of non-cooperation with previous CRA: None

Any other information: Nil

Annexure I Darshan Cotton Industries Bhainsa, Telangana

Bank	Facilities	Tenure	Amount Rated
Andhra Bank Bhainsa, Telangana	Cash Credit	Long Term	8.00
Total			8.00

**Annexure II
Key Financial Indicators**

Particulars	Unit	FY 18 Audited	FY 19 Audited
Total Operating Income	Rs. Cr	18.74	18.38
OPBDIT	Rs. Cr	1.33	1.32
PAT	Rs. Cr	0.00	0.03
Partners' Capital	Rs. Cr	2.91	4.04
Total Debt/ Partners Capital	Times	3.32	2.60
Current Ratio	Times	1.41	1.52

Hyperlink/Reference to applicable Criteria:

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

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