

Rating Rationale

Brickwork Ratings assigns ‘BWR BB-’ for Bank Loan Facilities aggregating ₹ 7.10 Cr of M/s Desai Cottex

Brickwork Ratings (BWR) has assigned the **Rating¹** of BWR BB- (Pronounced BWR Double B Minus) for the long term bank loan facilities of ₹7.10 Cr of Desai Cottex (“DC” or “the Firm”)

Facility	Limits (₹Cr)	Tenure	Rating
Fund Based (FB)			
Cash Credit	5.00	Long Term	BWR BB- (Pronounced BWR Double B minus) (Outlook -Stable)
Term Loan	2.10		
Total Limits	7.10	(INR Seven Crores & Ten Lakhs only)	

BWR has principally relied upon the audited financials of past three years, financial projections shared by the Company, publicly available information and information/clarification provided by the Company management.

The rating inter alia factors the promoters’ experience in the industry, Strategic facility location with respect to proximity to the cotton producing regions, healthy coverage indicators and promoters’ ability to infuse equity as per business requirement. The rating is however constrained by relatively modest scale of operations, Profitability susceptible to volatility in cotton prices, industry characterized by severe competition from organized and unorganized players in market, limited price flexibility, low value addition nature of business and seasonality associated with the procurement of raw material resulting into a high working capital intensity of business.

Background

Desai Cottex Is a Partnership Firm established in 2012. The Firm is promoted by the partners Mr. Bhagwanbhai V. Desai, Mr. Hirenbhai D. Desai, Mr. Jaysukhbhai M. Desai, Mr. Manubhai V. Desai, Mr. Sureshbhai B. Desai & Mr. Vijaybhai B. Desai. The firm has manufacturing capacity of 200 bales per day and has a total of 24 ginning machines. The manufacturing activities takes place only for 8 months (Dec to July) during which the cotton cultivation takes place rest of the time the manufacturing capacity remains idle. The Firm sources its main raw material i.e. Sankar 6, from mandis as well as from farmers in the proximity.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

Financial Performance

Operating income of the Firm decreased from Rs24.23 Cr in FY14 to Rs23.15 Cr in FY15, on account of lower volume due slowdown in industry demand. However, operating profit increased from Rs0.70 Cr in FY14 to Rs1.37 Cr in FY15, on account of operating efficiency. Consequently, operating profit increased from 2.90% in FY14 to 5.94% in FY15. Net profit of the Firm remained flat at Rs0.03 Cr, on account of higher depreciation and interest charges. Gearing of the Firm is recorded at 2.19 times in FY14, which is improved to 1.61 times in FY15. Current ratio is recorded at 1.69 times in FY15.

Outlook

Performance as per financial projections, proficient expansion of volume, and satisfactory earnings profile are key rating sensitivity factors.

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