

## Rating Rationale

11Mar2019

### Jay Bhavani Cottex

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 6.00 Crores of Jay Bhavani Cottex.**

#### Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (30April2018)	Present
Fund based	6.31#	6.00	Long Term	BWR B+ (Pronounced as BWR Single B Plus) Outlook: Stable	BWR B+ (Pronounced as BWR Single B Plus) Outlook: Stable Reaffirmed
<b>Total</b>	<b>6.31</b>	<b>6.00</b>	<b>INR Six Crores Only</b>		

# Previous rated limit of Rs. 6.31 Crs was inclusive of Term loan of Rs. 0.31 Crs, which has been fully paid as on 31July2018.

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings  
Complete details of Bank facilities is provided in Annexure-I

#### Ratings: Reaffirmed

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the Firm's audited financial results for FY18 , Provisional financials upto 11MFY19, Projections up to FY19, publicly available information and clarifications provided by the Management.

The rating draws strength from vast experience of the promoters in the business of cotton ginning, improved operation, longstanding relationships with reputed customer base and comfortable liquidity. The ratings are however, constrained by thin profit margins, and moderate financial risk profile. The rating also considers the working capital intensive nature of the business and inherent risk of withdrawal of the capital being a partnership constitution.



## Description of Key Rating Drivers

### Credit Strength :

- **Experienced management** : JBC is promoted by Mr. Ghanshyambhai Barad & family. They have an experience of more than five years in the cotton industry.
- **Improved Operation** : The Company has reported operating income of Rs. 36.04 crs for FY18 as against Rs. 28.62 crs in FY17, an increase of 25% YoY.
- **Proximity to cotton-producing belt ensures easy access to raw material** – JBC's ginning and pressing units are in Amreli district (Gujarat), which is surrounded by high quality cotton growing area. Hence, the firm benefits from its location due to the easy availability of quality cotton at competitive prices.

### Credit Risks:

- **Moderate Financial Risk Profile** : Firm's financial risk profile is weak with Debt/TNW at 1.09 & 1.41 in FY17 & FY18. TOL/TNW is 1.14 & 1.58. TNW is low at Rs. 3.80 Crs in FY18.
- **Exposure to fluctuations in raw material prices** : The operating profitability remains highly susceptibility as material cost constitutes 90-95% of direct cost. Further, low bargaining power with customers limits the ability to pass on the fluctuation in raw material prices. OPM is 3.12% & 2.81% and NPM is 0.13% & 0.05 in FY17 & FY18 respectively due to fluctuations in the prices of raw material.
- **Risks inherent in a partnership firm** – Given JBC's constitution as a partnership firm, it is exposed to specific risks like the possibility of withdrawal of capital by the partners.
- **Limited value addition and fragmented nature of the industry** – The cotton-ginning industry is highly fragmented and competitive in nature owing to the presence of a large number of organised and unorganised players due to low entry barriers in terms of investments and technology. Also, the low value-added nature of the business results in thin profit margins for the firm.

**Liquidity Position** : The current ratio of the company stood at 1.46 times in FY18 as against 1.72 times in FY17. The working capital cycle of the company has remained comfortable. The company has high inventory levels coupled with relatively average utilization of working capital facilities.

### 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 **Jay Bhavani Cottex** 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**

Jay Bhavani Cottex is a partnership firm Established on 24th April 2013 in the state of Gujarat . The firm is promoted by Mr. Ghanshyambhai Barad & his family. The manufacturing unit is situated at Amreli, Gujarat to carry out cotton ginning and pressing activity .

**Financial Performance**

Firm has reported net sales of Rs. 36.04 Crs in FY18 against Rs. 28.62 Crs in FY17. Firm has reported PAT of Rs. 0.02 Crs in FY18 against Rs. 0.04 Crs in FY17. Tangible net worth stood at Rs. 3.80 Crs as on 31 March 2018 against Rs. 4.04 Crs in as on 31 March 2017.

As per management certified prov. financials as on 28th February, 2019, total achieved revenue is Rs. 16.62 Crs

**Rating History for the last three years**

S.No	Instrument /Facility	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating	30April2018	30Mar2017	20Jun2016
1	Fund Based Cash Credit	Long Term	6.00	<b>BWR B+ (Pronounced as BWR Single B Plus) Outlook: Stable Reaffirmed</b>	BWR B+ (Pronounced as BWR Single B Plus) Outlook: Stable	BWR B+ (Pronounced as BWR Single B Plus) Outlook: Stable	BWR B+ (Pronounced as BWR Single B Plus) Outlook: Stable
	<b>Total</b>		<b>6.00</b>	<b>₹ Six Crores Only</b>			

**Status of non-cooperation with previous CRA (if applicable)- Not Applicable**



### Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Operating Revenue	Rs. in Crs	36.04	28.62
EBITDA	Rs. in Crs	1.01	0.89
PAT	Rs. in Crs	0.02	0.04
Tangible Net worth	Rs. in Crs	3.80	4.04
Total Debt/Tangible Net worth	Times	1.41	1.09
Current Ratio	Times	1.46	1.72

### Hyperlink/Reference to applicable Criteria

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

For any other criteria obtain hyperlinks from [webManufacturingCompaniesite](http://webManufacturingCompaniesite)

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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](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto: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.

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