



Rating Rationale

4 Dec 2019

Jay Dwarkadhish Ginning and Oil Industries

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 6.81 Crores of Jay Dwarkadhish Ginning and Oil Industries.

Particulars

| Facility | Amount (₹ Crs) | | Tenure | Rating* | |
|------------|----------------|---------|--|----------------------|--------------------------|
| | Previous | Present | | Previous (Sept-2018) | Present |
| Fund based | 8.91 | 6.81 | Long Term | BWR BB-Stable | BWR BB-Stable Reaffirmed |
| Total | 8.91 | 6.81 | INR Six Crores & Eighty One Lakhs Only | | |

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

BWR has taken a Standalone view of Jay Dwarkadhish Ginning and Oil Industries and essentially relied upon the audited financial results up to FY19 and information/clarification provided by the Firm's management.

The rating reaffirmation draws strength from moderate financial risk profile and efficient working capital management. The rating also factors the long standing business experience of the promoters and established relationship with suppliers and customers. The rating is, however, constrained by decline in revenues, vulnerability of profit margins due to adverse movements in cotton prices, which are subject to seasonality and crop harvest. The firm is exposed to intense competition from a large number of players operating in Gujarat and inherent risks arising from the partnership nature of the firm limiting financial flexibility. BWR believes that business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term.

Description of Key Rating Drivers



Credit Strengths:

- **Experienced promoters** : The firm is promoted by Mr. Matra Ghanghal, having an experience of more than a decade in cotton ginning & pressing industry. Promoters have very strong relationship with farmers and cotton traders across Gujarat which ensures smooth flow of raw cotton procurement. Further, the proximity of the manufacturing unit to the cotton producing belt of Saurashtra-Gujarat gives easy access to availability of raw material.
- **Moderate financial risk profile** : The financial risk profile of the firm has remained moderate indicated by comfortable gearing and debt coverage indicators. Gearing stood at 1.40x and 1.46 in FY18 & FY19, respectively. Tangible net worth remained low at Rs.4.19 Crs and debt coverage indicators continued to remain moderate with interest coverage at 1.49 times as on 31st March, 2019. Working Capital Cycle stood at 22 days in FY19 against 23 days in FY18 owing to short inventory holding period and timely collection from customers. Firm's current ratio standing at 1.39x in FY19 as compare to 1.31x for FY18 showcasing healthy liquidity position.

Credit risks:

- **Volatile trend in Operating Income and vulnerable Profit margins due to fluctuations in raw material prices** -operating income (OI) of the firm declined by 18% in FY19 to Rs. 124.10 crore from Rs. 151.04 crore in FY18 crore mainly because of the decrease in sales realisation of cotton seeds and volume. The profit margins are exposed to fluctuations in raw cotton prices, which depend on various factors such as seasonality, regulations like minimum support price (MSP) etc. The operating cost remains high between 97%-98%. The operating profitability continued to be low at 0.61% in FY18 and 0.90% in FY19, resulting in low net margins of 0.07% and 0.019% respectively.
- **Risk associated with a partnership firm** – The firm is exposed to the risk of capital withdrawals, negatively impacting the capital structure and financial risk profile further limiting financial flexibility of the firm.
- **Intense competition and fragmented industry structure** - The cotton ginning industry is highly fragmented with the presence of numerous small to mid-sized players. Thus, the firm faces stiff competition, which limits its bargaining power and exerts pressure on its margins.

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 Sensitivities :

Positive: Further improvement in operating income, profit margins & debt protection metrics, additional infusion of capital by partners and the firm's ability to effectively manage its working capital requirements will be positive for the ratings.

Negative: Further deterioration in leverage on account of withdrawal of capital by partners and debt protection metrics will be negative for the ratings.

LIQUIDITY POSITION- Adequate

The firm's liquidity has remained sufficient on account of net cash accruals of Rs 0.44 Crs in FY19 and 0.30 in FY18. The average working capital utilisation remained high above 85% during the peak season i.e October-March and has remained below 50% in the last six months ending October-2019. The firm does not have any long-term debt repayments lined up in the near to medium term, which provides additional liquidity comfort

About the Company

Jay Dwarkadhish Ginning and Oil Industries was established in April, 2001 as a partnership firm at Falla, Jamnagar, Gujarat. The firm is engaged in cotton ginning & pressing activity and managed by Mr. Bharatbhai Vansajaliya and Mr. Kantibhai Varsani.

Rating History for the last three years

| S.No | Facility | Current Rating ^ | | | Rating History | | |
|------|------------------------|------------------|----------------|---|----------------|---------------|-----------|
| | | Type | Amount (₹ Crs) | Rating | 12Sept2018 | 21Jul2017 | 2016 |
| 1 | Fund Based Cash Credit | Long Term | 6.81 | BWR BB-Stable | BWR BB-Stable | BWR BB-Stable | Not Rated |
| | Total | | 6.81 | ₹ Six Crores & Eighty One Lakhs Only | | | |

^Moved to "Not Reviewed" category on 13th September, 2019 due to non availability of information.

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

Key Financial Indicators

| Key Parameters | Units | 2019 | 2018 |
|-------------------------------|------------|---------|---------|
| Result Type | | Audited | Audited |
| Operating Revenue | Rs. in Crs | 124.10 | 151.04 |
| EBITDA | Rs. in Crs | 1.12 | 0.92 |
| PAT | Rs. in Crs | 0.24 | 0.10 |
| Tangible Net worth | Rs. in Crs | 4.19 | 3.65 |
| Total Debt/Tangible Net worth | Times | 1.46 | 1.40 |
| Current Ratio | Times | 1.39 | 1.31 |

Hyperlink/Reference to applicable Criteria

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

For any other criteria obtain hyperlinks from website

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ANNEXURE I

Details of Bank Facilities rated by BWR

| Sl. No. | Name of the Bank | Type of Facilities | Long Term {(₹ Cr)} | Short Term (₹ Cr) | Total (₹ Cr) |
|--------------|-----------------------|---------------------------|-----------------------|----------------------|-----------------|
| 1 | Central Bank of India | Fund Based Cash Credit | 6.81 | - | 6.81 |
| TOTAL | | | | | 6.81 |

Total Rupees Six Crores and Eighty One Lakhs Only.

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