

## Rating Rationale

### Lalitha Cotton Traders

10May2019

Brickwork Ratings revises the ratings for the Bank Loan Facilities of ₹. 7.00 Crores of Lalitha Cotton Traders.

#### Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Feb, 2018)	Present
Fund based Open Cash Credit	7.00	7.00	Long Term	BWR B+ (Pronounced as BWR Single B Plus) Outlook: Stable	BWR BB- (Pronounced as BWR Double B Minus) Outlook: Stable [Upgraded]
<b>Total</b>	<b>7.00</b>	<b>7.00</b>	<b>INR Seven Crores Only</b>		

\*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: Upgraded

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

Brickwork Ratings has essentially relied upon the audited financials upto FY18, CA certified provisional of FY19, projected financials upto FY21, publicly available information and information/clarifications provided by the proprietorship concern's management.

The upgradation of the rating has factored the moderate growth in the financial parameters of the firm over a period of time. The ratings also factored in the established presence of the concern and experience of the management in cotton trading business, increase in revenue on Y-O-Y basis and locational advantages of the concern. However, the rating is constrained by thin profitability, intense competition in market, susceptibility of margins due to fluctuation in cotton prices, exposure to regulatory and agro climatic risks and working capital intensive nature of operations.



Going forward, the ability of the concern to accelerate its scale of operations, improve its profitability, strengthen its credit profile and manage its working capital efficiently will be the key rating sensitivities.

### **Key Rating drivers**

#### **Credit strengths**

- Established track record in the business as the firm is active since 2004
- LCT's management has over a decade of experience in the cotton industry, which has helped to understand local market dynamics and establish a relationship with customers & suppliers
- Increase in operating income from Rs.35.30 Crs in FY17 to Rs.40.27 Crs in FY18. On CA certified provisional basis, the firm has reported operating income of Rs.38.16 Crs for FY19
- The locational advantage of the unit, by virtue of its location in the cotton - producing belts of Andhra Pradesh enables easy procurement of cotton lint, cotton seed and raw cotton.

#### **Credit Risks**

- Profitability margins are thin due to trading nature of business.
- Cotton industry is cyclical and is intensely competitive and fragmented industry owing to the presence of several organised and unorganised players and also margins are susceptible due to adverse movements in cotton prices
- Availability of cotton is mainly dependent on the vagaries of rainfall. Government intervention is very high with respect to cotton industry and its pricing. Working capital requirement is high due to nature of business.

### **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 **Lalitha Cotton Traders** 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**

Lalitha Cotton Traders ('LCT' or 'the Proprietorship concern'), a women entrepreneurship entity, was established in 2004 by Smt. Thota Padmavathi, at Seetharamnagar, Guntur, Andhra Pradesh. The concern is engaged in trading of cotton lint and cotton seed. The concern has also leased a Ginning mill to engage in ginning activity. The concern sells cotton lint and cottonseed to spinning mills, exporters, traders, locally and other states, namely, Telangana Gujarat, Rajasthan, etc.

**Firm Financial Performance**

LCT’s total operating income increased to Rs.40.27 Crore for FY18 from Rs. 35.30 Crore for FY17 with net profit of Rs. 0.15 crore for FY18 as against Rs. 0.15 crore for FY17. Proprietor’s Capital was Rs. 2.13 Crore as on 31<sup>st</sup> March 2018. On CA certified provisional basis, the proprietorship concern reported operating income of Rs.38.16 Crs for FY19.

**Rating History for the last three years**

Facility	Current Rating (2019)			Rating History		
	Type	Amount (₹ Crs)	Rating	22.2.2018	2017	2016
<b>Fund Based</b>	Long Term	7.00	<b>BWR BB-</b> (Pronounced as BWR Double B Minus) <b>Outlook: Stable</b> <b>[Upgraded]</b>	<b>BWR B+</b> (Pronounced as BWR Single B Plus) <b>Outlook: Stable</b>	-	
<b>Total</b>		<b>7.00</b>	<b>₹ Seven Crores Only</b>			

Status of non-cooperation with previous CRA - Not known to our knowledge

Any other information - Nil

**Key Financial Indicators**

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Total Operating Income	Rs In Crores	40.27	35.30
EBITDA	Rs In Crores	0.75	0.62
PAT	Rs In Crores	0.15	0.15
Tangible Net worth	Rs In Crores	2.13	1.62
Total Debt/Tangible Net worth	In Times	3.90	3.11
Current Ratio	In Times	1.46	1.52



**Hyperlink/Reference to applicable Criteria**

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

**For any other criteria obtain hyperlinks from website**

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**For print and digital media**

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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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#### Annexure - I

##### Details of Bank Facilities

₹ Crores

Name of the facilities	Tenure	Previous Limits (Feb, 2018)	Present Limits
Open Cash Credit	Long Term	7.00	7.00
<b>Total</b>		<b>7.00</b>	<b>7.00</b>