



Rating Rationale

Mohanrao and Company

16 Oct 2018

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹ 15.00 Crores of Mohanrao and Company.

Particulars

Facility	Existing limit (₹ Crs)	Proposed Limit (₹ Crs)	Amount Rated (₹ Crs)	Tenure	Rating*
Fund based: Open Cash Credit	10.00	15.00	15.00	Long Term	BWR B+ (Pronounced as BWR Single B plus) Outlook Stable
Total	10.00	15.00	15.00	INR Fifteen Crores Only	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
BWR has essentially relied upon the firm's audited financial results up to FY 18, provisional statements till 30.9.18, estimates for FY 19 and projected financials of FY 20, publicly available information and information/clarifications provided by the management.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

The rating has inter-alia, factored experience of the promoters in cotton ginning & pressing industry for more than 2 decades, established track record in the market, improved net worth, improved sales revenue, locational advantage and ability to meet competition from many small & medium units in the region. However, the ratings are constrained by low scale of operations, high gearing, volatility in profitability level, low debt protection matrix and working capital intensive nature of operations.

Going forward ability of the firm to improve its scale of operations & its profit earnings, to maintain its customer relationship, improve its gearing with further infusion of capital and to manage its working capital efficiently will be the key rating sensitivities.

Description of Key Rating Drivers

Credit Strengths:

- **Locational Advantage:** Firm being located in Bhanisa cluster and thus has a



competitive advantage in terms of labour, logistics, availability of raw material and vendors making the unit more efficient and cost effective.

- **Firm's existence:**The firm has been in existence for more than 26 years has seen complete business cycles. While promoters having experience of more than 2 decades in the industry, been able to maintain long relationship with its customers.
- **Improved Revenue and Profit level from Operations:**The firm's revenue from operations has grown substantially during the current year. It stood at Rs. 60.08 crs for FY18 while PAT was at Rs. 0.12 crs.
- **Account Receivables:**The firm's Account Receivable days of 38 is better than the average.

Credit Risks:

- **Agro climatic risks and seasonal nature business:** The activity of the firm being seasonal in nature, is inherent to the risk of price fluctuations. Usually, peak season for cotton production begins from October till April.
- **Thin profit margins:** Operating profit margin for FY18 was at 1.82 percent as compared to 1.23 percent in FY17 and 1.62 percent in FY16. While net profit margin for FY18 was at 0.20 percent as against 0.31 percent in FY17.
- **Low net worth of the firm:** Net worth of the firm for FY18 stood at Rs. 2.64 crs as compared to Rs. 2.57 crs in FY16.
- **High Gearing:** Debt Equity ratio of the firm has been high due to low net worth. DE for FY18 stood at 5.41 times as against 2.41 times.
- **Competition in the Industry:** Entry barriers in the industry are low on account of limited capital and technology requirement and also low differentiation in the end product leading to intense competition and limiting the pricing power resulting in low profitability.

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 **Mohanrao & Company** 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

M/s. Mohanrao & Company (MC) has been carrying out the business of ginning and pressing of cotton since 1992 in the region of Bhainsa, Telangana. During 1998, it registered as a partnership firm to continue with the existing business in the region. Presently, it is constituted



by four partners namely, Mr. Mohan Rao Patel, Managing Partner, Mrs. Anusuyabai, Mr. Govind Bhosle and Mr. Abhinav Bhosle are the other Partners. Mr. Mohan Rao Patel has been spearheading the activities of the business for more than 2 decades. The production capacity of cotton is 200 bales per day while cotton seeds is 650 quintals per day. The unit functions under 2 shifts and has employed 8 nos permanent employees and 10 nos temporary employees to carry out its day to day activities. The unit has installed 52 ginning machines. Mr. Mohan Rao Patel is engaged in other business activities, that includes, Hotel business, under the name of M/s. Patel Plaza located at Nanded since 1998. It includes hotel cum lodging facilities.

Firm's Financial Performance

Mohanrao & Company's operating revenue for FY18 was reported at Rs. 60.08 crs while PAT stood at Rs. 0.12 crs. Net worth of the firm for FY18 was at Rs. 2.64 crs. Debt protection matrix for FY18 has come down due to increase in interest charges for the year. ISCR was at 1.10 times as against 1.64 times in FY17. Liquidity position of the firm has been comfortable with CR for FY18 at 1.68 times. As per provisional statements for 30.9.2018, the Sales revenue of the unit has reported at Rs. 11.16 crs (against estimates for FY19 of Rs. 72.25 crs).

Key Financial Indicators

Key Parameters	Units	2018 (A)	2017 (A)
Operating Revenue	₹ Cr	60.08	15.51
EBITDA	₹ Cr	1.09	0.19
PAT	₹ Cr	0.12	0.05
Tangible Net worth	₹ Cr	2.64	2.57
Total Debt/Tangible Net worth	Times	5.41	2.41
Current Ratio	Times	1.68	1.45

Rating History for the last three years

S.No	Facility	Current Rating (2018)			Rating History		
		Type	Amount (₹ Crs)	Rating	FY 2017	FY 2016	FY 2015
	Fund Based: OCC (Proposed)	Long term	15.00	BWR B+ (outlook stable)	-	-	-
	Total		15.00	₹ Fifteen Crores Only			



Hyperlink/Reference to applicable Criteria

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

Analytical Contacts	Media
<i>Nagaraj KS</i> <i>Chief Manager</i>	media@brickworkratings.com
analyst@brickworkratings.com	Relationship Contact
	bd@brickworkratings.com
Phone: 1-860-425-2742	

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 Investors queries can be sent to 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. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 13,22,500 Cr. In addition, BWR has rated over 7000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹62,000 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities



DISCLAIMER

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