



Rating Rationale

R.B. and Sons Cotton Traders
Raichur, Karnataka

4th September 2017

Brickwork Ratings revises rating to BWR B for the Bank Loan Facility of Rs. 5.50 Crore of R.B. and Sons Cotton Traders (RBS or “the firm”)

Particulars

Facilities Rated	Amount [#] (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous	Present
Fund Based					
Cash Credit	5.50	5.50	Long Term	BWR B+ (Pronounced BWR Single B Plus)	BWR B (Pronounced as BWR Single B)
Term Loan	0.21	-		Outlook: Stable	Outlook: Stable Downgraded
Total	5.71	Rs. 5.50 Crore (Rupees Five Crore and Fifty Lakh Only)			

[#] Annexure I provides bank wise details of facilities

* Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Note: Term loan since repaid

Long Term Rating Downgraded

Rationale/Description of Key Rating Drivers/Rating Sensitivities:

BWR has essentially relied upon the audited financials upto FY16, provisional financials of FY17, publicly available information and information/clarifications provided by the firm's management.

The rating revision takes into consideration the y-o-y deterioration in revenue and profitability. The rating remains constrained by susceptibility of profitability margins to volatility in raw material prices, intensely competitive and fragmented industry, exposure to agro climatic risks and working capital intensive nature of operations. However, the rating takes into consideration the partners' experience in the cotton industry and locational advantage of the unit in the cotton growing belt.



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

Rating Outlook: Stable

BWR believes **R.B. and Sons 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.

Key Rating drivers

Credit strengths

- **Experience of Partners and established track record**
The partners' experience in the cotton industry has helped them understand local market dynamics and establish strong relationships with customer and suppliers.
- **Locational advantage**
The firm's cotton processing unit is located at Raichur, Karnataka and is close to the cotton growing belt in Karnataka, which ensures easy availability of raw cotton directly from farmers.

Credit Weaknesses

- **Declining scale of operations in a highly competitive and fragmented industry**
Entry barriers in the cotton ginning and pressing industry are low on account of limited capital & technology requirements and low differentiation in end product. This leads to intense competition and limits players' pricing power, resulting in low profitability. RBS' revenue has continuously declined from Rs. 87.67 crore in FY14 to Rs. 64.25 crore in FY15 and Rs. 44.37 crore in FY16, due to weak monsoon resulting in limited availability of raw cotton. On a provisional basis, revenue for FY17 is also reported to be stagnant at around Rs. 44.00 crores.
- **Vulnerability to volatility in cotton prices**
Since cotton is an agricultural commodity, its availability depends on the monsoon. Government intervention and fluctuations in global cotton output also lead to sharp volatility in cotton prices.



About the Firm

R.B. and Sons Cotton Traders was established in 2007 as a partnership firm at Raichur, Karnataka. RBS is engaged in raw cotton ginning & bale pressing and trading of cotton lint. Mr. Rajendra Kumar Varma is the Managing Partner.

Financial Performance

Net revenue decreased from Rs.64.25 crore in FY15 to Rs. 44.37 crore in FY16. Profit after Tax was Rs.0.02 Crs in FY16 compared to Rs.0.06 Crs in FY15. Partners' capital was Rs. 3.71 crore as on 31st March 2016. Total Debt was Rs. 5.79 crore as on 31st March 2016. Current ratio was moderate 1.20 times as on 31st March 2016. . On a provisional basis, revenue for FY17 is reported to be around Rs. 44.00 crores

Key financial indicators are furnished in Annexure II

Rating History for the last three years

Sl. No.	Instrument/ Facilities	Current Rating (Year 2017)			Rating History		
		Type	Amount (Rs. Cr)	Rating	2016 [^] (31 st May 2016)	2015 ^{^^} (5 th May 2015)	2014
1	Cash Credit	Long Term	5.50	BWR B (Outlook: Stable)	BWR B+ (Outlook: Stable) <i>Reaffirmed</i>	BWR B+ (Outlook: Stable) <i>Assigned</i>	-
2	Term Loan		-	-	BWR B+ (Outlook: Stable) <i>Reaffirmed</i>	BWR B+ (Outlook: Stable) <i>Assigned</i>	-
Total			Rs. 5.50 Crore (Rupees Five Crore and Fifty Lakh Only)				

[^] Amount Rated: Rs, 5.71 Crs, ^{^^}Amount Rated: Rs.6.25 Crs

Note: Term loan since repaid

Status of Non Cooperation with other CRA: Not Applicable

Any other information: Not Applicable

Hyperlink/Reference to applicable Criteria

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



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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, has also been 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 Nationalized 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, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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Annexure I

**R.B. and Sons Cotton traders
Raichur, Karnataka**

Details of Rated Bank Facilities

Bank ^{##}	Facilities	Type	Tenure	Amount Rated (Rs. Cr)
State Bank of India, Raichur, Karnataka	Cash Credit	Fund Based	Long Term	5.50
Total				5.50

^{##} Facilities availed from State Bank of Mysore prior to merger with State Bank of India

Annexure II

Key Financial Indicators

(Rs. Crore)		FY15	FY16
Net Sales	(Rs. Crs)	64.25	44.47
EBITDA	(Rs. Crs)	1.30	0.96
Profit After Tax	(Rs. Crs)	0.06	0.02
Partners' Capital	(Rs. Crs)	3.33	3.71
Total Debt: Partners Capital	Times	1.53	1.56
Current Ratio	Times	1.39	1.20