

Rating Rationale

Brickwork Ratings assigns 'BWR B+' for the Bank Loan Facilities aggregating ₹ 5 Cr of Rahul Cotton Factory Pvt Ltd

Brickwork Ratings (BWR) has assigned the following **Rating**¹ for the Bank Loan Facilities of Rahul Cotton Factory Pvt Ltd (*RCFPL* or 'the company').

Facility	Amount (₹ Cr)	Tenure	Rating
Cash Credit (Fund Based)	5.00	Long Term	BWR B+ (BWR B Plus) Outlook: Stable
Total	5.00	INR Five Crores only	

BWR has principally relied upon the audited financial results up to FY13, projected financials up to FY15 of Rahul Cotton Factory Pvt Ltd (RCFPL), publicly available information and information/clarifications provided by the company.

The rating draws strength from the extensive experience of the promoters in the cotton industry, moderate debt protection metrics and the strategic location of the company. The rating is, however, constrained by the low scale of operations, limited value additive nature of the industry and susceptibility to risks arising from the highly regulated and seasonal nature of the cotton industry and fluctuation in cotton prices.

Background:

Incorporated in 2007 at Sanawad, Madhya Pradesh, Rahul Cotton Factory Private Limited (RCFPL) operates a cotton ginning and pressing unit. The installed capacity of the plant is 1000 quintals of cotton/month. The company has installed fully automated machines in the plant. RCFPL has its own warehouse which can store up to 5000 bales i.e. 25000 quintals of cotton. RCFPL also processes the cotton seeds to manufacture cotton seed oil which is sold to refineries for further processing.

RCFPL has four sister concerns viz., Arihant Trading Company, Rahul Ginning Industries, Amit Trading Company and Nidhi Ginning Industries which are associated with the cotton industry. Nidhi Ginning Industries has not yet commenced operations.

Management:

The Board of Directors consists of Mr. Shantilal Jain, Mr. Sagarmal Jain and Mrs. Anita Bhagchand Jain. The Directors possess over two decades of experience in the cotton industry.

¹ Please refer to www.brickworkratings.com for definition of the Rating

Financial Highlights:

RCFPL recorded Net Revenue of Rs.31.67 Cr for FY 13 as against Rs.24.37 Cr in FY12. Operating Margin was 2.12% and PAT Margin was 0.22% in FY13 as against 2.71% and 0.17% respectively in FY12. Tangible Net Worth increased from Rs.1.77 Cr as on March 31, 2012 to Rs.2.12 Cr as on March 31, 2013 . The Debt-to-Equity of RCFPL was 1.48 x and the Current ratio was 1.01x as on March 31, 2013 as against a Debt-to-Equity of 2.09 x and Current ratio of 1.15x as on March 31, 2012.

On a provisional basis, RCFPL has reported a Net Revenue of Rs. 11.67 Cr for 9m FY14, mainly on account of poor production of cotton and low quality crop of cotton with high moisture content during the year. However, RCFPL expects to report improved performance during the current season.

Rating Outlook:

The outlook of the company is expected to be stable over the next twelve months. Going forward, the ability of the company to increase its scale of operations profitably, improve its overall financial risk profile and liquidity and move up in the value chain of the cotton industry would form the key rating sensitivities.

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