



Rating Rationale

Rajeshwari Ginning Factory

04 Nov 2019

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 20.00 Crores of Rajeshwari Ginning Factory.(RGF or “The Firm”)

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Aug, 2018)	Present
Fund based	20.00	20.00	Long Term	BWR BB-/Stable	BWR BB-/Stable (Reaffirmed)
Total	20.00	20.00	INR Twenty Crores 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 Rajeshwari Ginning Factory. and essentially relied upon the audited financial results up to FY19 and projections provided by the Firm till 2020 and information/clarification provided by the firm's management.

The rating reaffirmation continues to factor in the promoter's extensive experience leading to well established relation with customers, modest scale of operation and comfortable liquidity position of the firm.

The rating is, however, constrained by high gearing on account of low capital base, vulnerable profit margins on account of fluctuation in raw material prices. The Firm faces stiff competition from large organised and unorganised players.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR believes Rajeshwari Ginning Factory's business risk profile will be maintained over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profits show further improvement. The



rating outlook may be revised to 'Negative' if the revenues go down and profit margins further deteriorate..

Going forward, the ability of the firm to achieve the projected revenue, improve its profitability margins and strengthen its capital structure would be key rating sensitivity.

Description of Key Rating Drivers

Credit Strengths:

- **Partners experience in the industry:** The Firm is promoted by Mr. Pramukh and Naginbhai Patel, who has extensive experience of three decades in cotton business. The Firm benefits from partners' established relationships with customers and suppliers.
- **Modest Scale of operation:** The firm has achieved a total operating income of Rs. 117.36 Crs in FY19 against Rs. 143.37 Crs in FY17 due to cotton price fluctuation and insufficient supply of raw material in the domestic market. Revenue has shown volatile trend in last 3 years and have remained modest limiting economies of scale
- **Comfortable liquidity :** Firm's current ratio is 1.44x & 1.41x in FY18 & FY19 respectively. Receivable days remain comfortable at around 30 days. The company has recorded comfortable conversion cycle resulting healthy liquidity position.
- **Group Support:** Raja Cotton Group's recorded healthy scale of operations with revenue of Rs 750 crore in fiscal 2019. Integrated operations consisting of cotton ginning and spinning provide synergy benefits. Also, prudent risk management practices including stocking of adequate cotton for the non-peak season, and procuring cotton bales against firm orders, help mitigate the impact of price fluctuations.

Credit Risks:

- **Moderate financial risk profile:** The firm's recorded high gearing levels of 4.10 times in FY18 & 3.57 times in FY19 on account of low capital structure with, tangible net worth at Rs. 6.07 Crs in FY19 . Debt protection metrics are average with ISCR of 1.09x in FY19 mainly on account of thin profitability.
- **Vulnerable profit margins:** The firm's profitability is susceptible to volatility in raw material prices which are subject to seasonality, crop harvest; and the regulatory risks with regard to MSP fixed by GoI and restrictions on cotton exports. The operating profitability remains highly susceptible as material cost constitutes 90-95% of direct cost. Further low bargaining power with customers limits the ability to pass on the fluctuation in raw material prices.



- **Intense competition:** The firm faces stiff competition from other small and unorganised players in the industry, which limits its bargaining power with customers and suppliers, and hence, exerts pressure on its margins.
- **Working Capital intensive nature of business:** Operations are working capital intensive because of high inventory level needed due to seasonal availability of raw cotton.

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:

Going forward, the ability of the firm to improve its revenue and improve its profit margins and manage the working capital requirements efficiently would be the key rating sensitivities.

Positive: Substantial growth in revenue and profits improving overall debt protection metrics may have positive impact on rating.

Negative: Deterioration in revenues and profitability margins of the company and overall liquidity position will have negative impact on the rating.

Liquidity Position- Comfortable

Liquidity position of the firm is moderate with current ratio at 1.44x & 1.41x in FY18 & FY19 respectively. The firm has an average realization of about 30 days. However the working capital requirement remains high on account of high inventory maintenance due to its seasonal availability.

About the Firm

Rajeshwari Ginning Factory was established in April, 1990 as a partnership firm. The firm is located in Mehsana, Gujarat. RGF is engaged in ginning & pressing as well as trading in cotton and crushing of cotton seeds and also engaged in cotton oil by using cotton seeds which is a by product of Cotton. The firm is having 100 Double Roller Gins with Auto-feeders and 40 expeller.

Key Financial Indicators

Key Parameters	Units	2019	2018
Result Type		Audited	Audited
Operating Revenue	₹ Cr	117.59	143.37



EBITDA	₹ Cr	2.04	2.75
PAT	₹ Cr	0.23	0.24
Tangible Net worth	₹ Cr	6.07	6.03
Total Debt/Tangible Net worth	Times	3.57	4.10
Current Ratio	Times	1.41	1.44

Key Covenants of the facilities rated: N.A

Status of non-cooperation with previous CRA (if applicable)-N.A

Rating History for the last three years

S.No	Instrument /Facility	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating	29, Aug 2018	2017	2016
1	Fund Based	Long Term	20.00	BWR BB-/Stable Reaffirmed	BWR BB-/Stable	N.A	N.A
	Total		20.00	₹ Twenty Crores Only			

Hyperlink/Reference to applicable Criteria

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

For any other criteria obtain hyperlinks from website



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M/s Rajeshwari Ginning Factory

Annexure I

Details of Bank Facilities Rated by BWR

SI No.	Name of the Bank	Type of Facilities	Long Term (₹ Crs)	Short Term (₹ Crs)	Total (₹ Crs)
1.	Oriental Bank of Commerce	Cash Credit	20.00	-	20.00
	Total		20.00	-	20.00

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