



## Rating Rationale

23 Nov 2018

### Shree Harikrushna Cotton Industries

**Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 8.00 Crores of Shree Harikrushna Cotton Industries (SHCI).**

## Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	8.00	Long Term	<b>BWR B+</b> <b>(Pronounced as BWR Single B Plus)</b> <b>Outlook: Stable</b>
<b>Total</b>	<b>8.00</b>	<b>INR Eight Crores Only</b>	

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

## Rating assigned

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

BWR has principally relied upon the audited financials upto FY18, Projected/estimated financials upto FY20 of Shree Harekrushna Oil Industries ( or ‘the firm’) and information /clarifications provided by the firm’s management.

The rating derives strength from promoters long track record of more than a decade in cotton ginning & pressing business, increased operation and comfortable liquidity position. However, the rating continues to remain constrained on account of its average financial risk profile marked by thin profit margins, high gearing, low tangible net worth and working capital intensive nature of operation etc. Further, The rating also continue to remain constrained owing inherent risk of withdrawal of the capital being partnership nature of constitution

### Description of Key Rating Drivers

#### Credit Strength :

- **Extensive experience of promoters** : SHCI is promoted by Mr. Sanjay Patel & family, having an experience of more than one decade in this industry.
- **Increased revenue:** SHCI has reported operating income of Rs. 57.26 crs for FY18 as against Rs. 42.83 crs in FY17, a 34% decline in sales.

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- **Comfortable liquidity** : The Firm's current ratio is 1.29x & 1.27x in FY17 & FY18 respectively. Receivable days remains from 50-75 days.

#### **Credit Risks:**

- **Average financial risk profile & Low tangible networth:** Tangible Net Worth is low at Rs. 2.18 Crs in FY18 and carrying the risk of withdrawal being a partnership firm. USL is Rs. 2.38 Crs in FY18. Firm's financial profile is average with Debt/TNW at 4.53 in FY18 & 5.55 in FY17. TOL/TNW is 4.10 & 4.71. Analysed Debt/TNW is 2.58x. Debt protection metrics are weak with ISCR @0.99 & DSCR @0.96 in FY18 due to thin profitability.
- **Thin profitability margin:** The OPM has improved from 1.91% to 2.18% due to fluctuation in the prices of raw material in FY17 & FY18 respectively and NPM has decreased from 0.13% to 0.09% due to increased finance charges.
- **Exposure to fluctuations in raw material prices :** The operating profitability remains highly susceptibility 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.
- **Exposure to intense competition:** SHCI faces intense competition in a highly fragmented textile industry with several organised and unorganised players.

#### **Liquidity Position :**

The firm's working capital utilization remains between 50% - 60%, which may indicate liquidity cushion available with them. The current ratio is 1.27x in FY18.

#### **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 **Shree Harikrushna Cotton Industries** 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:**

SHCI is a partnership firm established as in June-2012 by Mr. Sanjay Patel & Family for carrying an activity of cotton ginning & pressing. The registered office and godown is situated at Aldesan, Kadi, Gujarat.

#### **Financial Performance**

The Firm has reported the sales of Rs. 57.26 crs with a PAT of Rs.0.05 Crs as per audited financials of FY18 against the sales of Rs. 42.83 Crs with a PAT of Rs. 0.06 Crs in FY17.

### Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Operating Revenue	₹ Cr	57.26	42.83
EBITDA	₹ Cr	1.25	0.82
PAT	₹ Cr	0.05	0.06
Tangible Net worth	₹ Cr	2.18	1.98
Total Debt/Tangible Net worth	Times	4.53	5.55
Current Ratio	Times	1.27	1.29

### Rating History for the last three years

S.No	Instrument /Facility	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating	2017	2016	2015
1	Fund Based Cash Credit	Long Term	8.00	BWR B+ (Pronounced as BWR Single B Plus) Outlook: Stable	NA	NA	NA
	<b>Total</b>		<b>8.00</b>	<b>₹ Eight Crores Only</b>			

**Status of non-cooperation with previous CRA (if applicable)-** ACUITE ratings has published the rationale as ACUITE B+ under Issuer not cooperating category for total debt size of Rs. 9.76 Crs as on 30 July, 2018.

### Hyperlink/Reference to applicable Criteria

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

For any other criteria obtain hyperlinks from website



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#### Note on complexity levels of the rated instrument:

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#### About Brickwork Ratings

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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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