

Rating Rationale

Brickwork Ratings assigns 'BWR B+' for the Bank Loan Facilities aggregating ₹ 6.24 Cr of Sri Mahalaxmi Cotton Mills.

Brickwork Ratings (BWR) has assigned the **Rating¹** for bank loan facilities of Sri Mahalaxmi Cotton Mills (“SMCN” or “the firm”) as follows:

Bank Facility	Limits (₹ Cr)	Tenure	Rating*
Cash Credit	6.00	Long Term	BWR B+ (Pronounced BWR B Plus) Outlook: Stable
Term Loans *	0.24		
Total	6.24	INR Six Crores & Twenty Four Lakhs only	

*Outstanding amount as on Dec 2015

BWR has essentially relied upon SMCN’s audited financial results of FY15, publicly available information and the information/clarifications provided by the firm.

The rating draws strength from extensive experience of the promoters in the cotton ginning and pressing industry, established operational track record and locational advantages. However, the rating is constrained by the modest scale of operations, exposure of the cotton ginning and pressing industry to government regulation risks, volatility in raw material prices, thin profitability, agro climatic risks, intensely competitive industry and high working capital requirements.

Background:

Sri Mahalaxmi Cotton Mills was established in 2008 at Adilabad District, Telangana as a partnership firm by Shri. G Vilas Kumar. The firm is engaged in ginning, pressing and extraction of cotton seed oil & cake. The plant has an installed capacity of 62 gins and cotton baling press machine with an installed capacity of 500 bales per day. The firm sells its cotton bales to Cotton Corporation of India and domestic spinning mills.

Management:

Shri. G Vilas Kumar is the Managing Partner and has more than 8 years of experience in this business. Smt. G Rajani, Smt. G Umarai and Shri G Yogesh are the other partners.

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

Financial Performance:

SMCM's operating income decreased from ₹ 81.30 Crores in FY14 to ₹ 44.28 Crores in FY15. In FY14, the firm sold its cotton bales to Cotton Corporation of India and domestic spinning mills. However in view of unremunerative prices offered by the domestic spinning mills in FY15, the firm sold only to Cotton Corporation of India and hence the decline in sales. Profit after tax decreased marginally from ₹ 0.14 Crores in FY14 to ₹ 0.11 Crore in FY15. Partners net worth was ₹ 3.36 Crores as on March 31 2015.

Rating Outlook:

The rating outlook is expected to remain stable for the current year. Going forward, the ability of the firm to increase revenue with improved profitability, infuse additional capital, strengthen overall financial risk profile and manage its working capital efficiently will be the key rating sensitivities.

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