

Rating Rationale

U V Cotton & Oil Industries

December 27, 2017

Brickwork Ratings reaffirms ratings for the Bank Loan Facilities of Rs. 20.00 Crs of U V Cotton & Oil Industries.

Particulars

Facility Rated	Previous Limits (Rs. Crs)	Present Limits (Rs. Crs)	Tenure	Previous Rating (Nov 2016)	Present Rating *
Fund Based Cash Credit	20.00	20.00	Long Term	BWR B+ Pronounced as BWR B Plus Outlook:Stable	BWR B+ Pronounced as BWR Single B Plus Outlook:Stable Reaffirms
Total	Rs. 20.00 Crs	Rs. 20.00 Crores	(Rupees Twenty Crores Only.)		

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

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon audited financial results of FY16 and FY17, projected financial statements, publicly available information and information/clarifications provided by the management.

The rating reaffirmation continues to take in to account the experience of promoters, improvement in gearing, moderate capital structure and proximity of the unit to the cotton producing region of Gujarat along with access to port,.

The rating is, however, constrained by decline in sales, cyclical nature of business, intense competition and thin profit margins due to low value addition nature of business. Margins are further vulnerable to fluctuation in raw material prices and other inherent risks associated with agro based industry.

Analytical Approach (Wherever applicable):

Ratings have been based on the undernoted hyperlinked rating criteria.

Key Rating Drivers:

1. Overall Performance: In FY17, the company's revenue decreased by 43% over previous year. However, operating profit margin and net profit margin have improved to 4.28 percent and 0.08 percent in FY17 from 2.66 percent and 0.05 percent in FY16 respectively. Capital of the firm is at Rs. 11.50 Crs in FY17 against Rs. 11.32 Crs in FY16. Gearing has been improving from last three years. The firm is maintaining moderate debt and interest coverage indicators.
2. Locational advantage: The firm derives logistical advantages from proximity to Ports, its location in the cotton-producing belt of India, providing an easy access to quality raw material, also support the credit profile.
3. Partnership concern restricts its overall financial flexibility in terms of limited access to external funds and inherent risk of possibility of withdrawal of capital.
4. Profitability remains vulnerable to fluctuations in raw material prices: The profit margins are thin on account of limited value addition and presence in the lowest segment of the textile value chain and are exposed to fluctuations in raw cotton prices, which depend upon various factors like seasonality, climatic conditions, international demand and supply situation, export policy, etc. Further, it is also exposed to the regulatory risks with regards to the minimum support price (MSP), which is set by the Government.
5. Intense competition and fragmented industry – 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.

Rating Outlook: Stable

BWR believes the U V Cotton & Oil Industries's operation 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 Company

U V Cotton & Oil Industries (UVCOI) was established in the year 2011. The firm is promoted by Mr. Chandubhai Khachar and other family members. The firm commenced commercial operations in March 2012. The firm is engaged in cotton ginning & pressing, cotton oil extraction & other allied activities. The firm is located at Gondal, Gujarat which being an area with high output of cotton crop would provide it with easy access to high quality raw material. The firm procures raw material mainly from farmers, dealers and brokers spread over various cities of Gujarat. It currently has 24 ginning machines with an installed capacity of 250 cotton bales per day and 19 crushing machines having an installed capacity of 25MT of cotton seed oil per day.

Financial Performance

In FY17, as per audited results, the company reported an operating income of Rs. 70.05 Crs and a net profit of Rs. 0.06 Crs against an operating income of Rs. 122.86 Crs and a net profit of Rs. 0.06 Crs in FY16. The firm has reported total sales of Rs. 50.00 Crs till December 2017.

Key Financial Figures			
Particulars	Unit	FY16 (A)	FY17(A)
Operating Income	Rs. Crores	122.86	70.14
EBITDA	Rs. Crores	3.27	3.00
Operating Profit Margin	Percentage	2.66	4.28
Net Profit Margin	Percentage	0.05	0.08
Tangible Networth	Rs. Crores	11.32	11.50
Total Debt	Rs. Crores	24.71	19.89
Total outside Debt : Tangible Net Worth	Times	1.89	1.37
Current Ratio	Times	1.50	1.73

Rating History for the last three years: (including withdrawn/suspended ratings)

Sl. No.	Instrument/Facility	Current Rating (Year 2017)			Rating History		
		Type	Amount (Rs Crs)	Rating	Nov 2016	2015	2014
	Fund Based	Long Term	20.00	BWR B+ Outlook:Stable Assigns	BWR B+ Outlook: Stable	NA	NA
Total			Rs. 20.00 Crores (Rupees Twenty Crores Only.)				

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not applicable

Hyperlink/Reference to Applicable Criteria

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

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For print and digital media

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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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