Rating Rationale

**Venkatesh Cotton Pvt. Ltd.**

**23rd April 2019**

**Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 9.00 Crores of Venkatesh Cotton Pvt. Ltd..**

## Particulars

| Facility | Amount (₹ Crs) | Tenure | Rating* |
|---|---|---|---|
| **Fund based** Cash Credit | **9.00** | **Long Term** | **BWR B+** (Pronounced Single B Plus) **Outlook: Stable** |
| **Total** | **9.00** | **INR Nine Crore Only** | |

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

## Rating Assigned:

Long Term rating assigned **BWR B+** (Outlook:Stable) for bank loan facilities of Venkatesh Cotton Private Limited ( VCPL or "the company" )

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

BWR has principally relied upon audited financial results of Venkatesh Cotton Private Limited upto FY18, projected financials from FY19 to FY21, publicly available information and information/clarifications provided by the Company's management.

The assigned ratings draw comfort from extensive experience of management in the Cotton Ginning and Pressing Business, Strategic location of Manufacturing Plant, and Moderate Working Capital Cycle. The ratings are, however, constrained on account of Leveraged Capital Structure, partnership nature of constitution of the business, Scale of Operations and Low Profitability Margins, Moderate Coverage and Liquidity, and Sensitivity to External Factors in the Cotton & Yarn Industry.

Ability of the Company to improve its scale of operations and profit margins, improve its capital structure, coverage and maintain its working capital cycle would be its key rating sensitivity.

**Description of Key Rating Drivers**

**Credit Strengths:**

- **Extensive experience of Management**:VCPL is incorporated in 2011 by Mr Deepak Agrawal, Mr Mayank Agrawal & Mr Gaurav Agrawal in 2011. The company is engaged in the cotton ginning and pressing business. The Agarwal family, who the promoters are a part of have been engaged in the cotton trading, ginning & pressing business for over 25 years establishing long standing relationships with both suppliers and customers.
- **Strategic location of Manufacturing Plant:** Gujarat, Maharashtra, Madhya Pradesh and Tamil Nadu are major cotton producing states. The company's processing unit is strategically placed in the Cotton Producing Belt in Manwath MH and Sendhwa, MP, which results in low logistical expenditure and better supply chain management.
- **Moderate Working Capital Cycle & Liquidity:** Working Capital Cycle in FY18 stood at 53 days down from 61 days in FY17 owing to reduced inventory holding period and higher credit period from lenders. Similarly liquidity has remained at a moderate level with current ratio standing at 1.30x for FY18

**Credit Weaknesses:**

- **Leveraged Capital Structure:** Concern has a leveraged capital structure driven by low owner's capital and higher reliance on external finance. TNW in Fy18 stood at a low level of Rs.2.37 cr while Gearing was high at 4.12x.
- **Scale of Operations & Profitability Margins:** The company's TOI as on FY18 stands at 49.34 cr vs 46.19 cr in FY17 and has marginally increased on account of increased sales. The concern also has thin Profitability Margins with NPM and OPM in FY18 standing at 0.07% and 1.38% v/s 0.03% & 1.47% in FY17 respectively on account of volatility in raw cotton prices.
- **Weak Debt Protection Metrics**: Coverage as reflected through DSCR and ISCR has remained at low levels (1.04x and 1.47x respectively).
- **Sensitivity to External Factors:** Operations of cotton business are seasonal in nature with highly volatile raw cotton prices due to climatic conditions, export policy of government, and prices in international market. Apart from this cotton ginning industry is highly fragmented with intense competition from large number of unorganised players.

**Liquidity Profile**

Current Ratio stood at 1.30x in FY18. Cash & Cash Equivalent stood at Rs. 3.85 cr. Working Capital utilisation is higher in peak season and lower in non peak seasons.

## 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 **Venkatesh Cotton Pvt. Ltd.** 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 Company

Venkatesh Cotton Private Limited (VCPL) was incorporated in May 2011 by Mr Deepak Agrawal, Mr Mayank Agrawal & Mr Gaurav Agrawal and is based in Sendhwa, Madhya Pradesh. The company is engaged in the business of Cotton ginning and pressing. The production capacity of the company is 18,900 MT per annum split between two units situated at Manwath, Maharashtra and Sendhwa near Indore, Madhya Pradesh.

## Company Financial Performance

VCPL has recorded an operating revenue of 49.34 cr in FY18 marginally improving from 46.19 cr in FY17. However, EBITDA has remained at the same level due to higher operating expenses.

## Rating History for the last three years

| S.No | Facility | Current Rating | | | Rating History | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount (₹ Crs) | Rating | 2018 | 2017 | 2016 |
| **1** | **Fund Based** | Long Term | 9.00 | **BWR B+** (Pronounced Single B Plus) **Outlook: Stable** | **N/A** | **N/A** | **N/A** |
| | **Total** | | **9.00** | **₹ Nine Crore Only** | | | |

**Status of non-cooperation with previous CRA -** Assigned "**CARE B+; Stable ISSUER NOT COOPERATING"** on 15th March 2019. This was done on account of non payment of Surveillance fees for the rating exercise agreed to in the rating Agreement.

**Any other information -** nil

**Key Financial Indicators**

| Key Parameters | Units | 2018 | 2017 |
|---|---|---|---|
| **Result Type** | | **Audited** | **Audited** |
| Operating Revenue | ₹ Cr | 49.34 | 46.19 |
| EBITDA | ₹ Cr | 0.68 | 0.68 |
| PAT | ₹ Cr | 0.03 | 0.01 |
| Tangible Net worth | ₹ Cr | 2.37 | 2.33 |
| Total Debt/Tangible Net worth | Times | 4.12 | 2.59 |
| Current Ratio | Times | 1.30 | 1.34 |

## Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Infrastructure Sector**
- **Short Term Debt**

**For any other criteria obtain hyperlinks from website**


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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, 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 leading public sector 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, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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