

February 15, 2017

Gujarat Cotton Corporation

Instrument*	Rated Amount (in crore)	Rating Action
Fund based limits	25.00 (enhanced from 6.00)	[ICRA]BB-(Stable) assigned/ outstanding
Non-fund based limits	NIL (reduced from 7.00)	-
Total	25.00	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA assigns/reaffirms the long term rating of [ICRA]BB- (pronounced ICRA double B minus) to the Rs. 25.00 crore¹ export packing credit of Gujarat Cotton Corporation (GCC). The outlook on long term rating is 'Stable'.

Rationale

The assigned ratings take into account GCC's moderate financial risk profile characterised by thin profitability margin on account of low value additive nature of trading business and below average debt coverage indicators. The ratings are also constrained by the high competitive intensity of the business owing to low entry barriers which exert pressure on profit margins and the vulnerability of operations to price volatility (governed by international factors) as well as domestic agro climatic conditions. The ratings are further constrained by the vulnerability of the company's profitability to changes in export incentives provided by the government.

The ratings, however, positively consider the experience of the promoters in agro commodity trading business, operational support from group concerns in form of established sales network and healthy growth in the scale of operation in last two fiscals.

ICRA expects GCC's revenue to improve by ~15-20% on y-o-y basis in FY2017 following enhancement in working capital facility and increase in cotton prices in international market with operating margins are expected to remain low given the low value added nature of the trading business. The ability of the company to increase the scale of operations in a profitable manner, withstand cost pressures to ensure timely debt servicing will remain the key rating sensitivities.

Key rating drivers

Credit Strengths

- Vast experience of the promoters in trading of agro commodities
- Operational support from group concern in form of established sales network
- Healthy growth in scale of operation in last two fiscals

Credit Weakness

- Margins remain inherently thin due to low value additive nature of trading business
- High degree of competition and fragmentation further exert pressure on margins
- Vulnerability of profitability to price volatility (governed by international factors) as well as domestic agro climatic conditions
- Profitability remains vulnerable to changes in export incentives provided by the government

¹ 100 lakhs = 1 crore = 10 million

Description of key rating drivers highlighted above:

Gujarat Cotton Corporation (GCC) trades cotton bales and cotton waste in domestic as well as in international market. The export sales made to countries such as Bangladesh, Pakistan, China, Vietnam, etc. contributes majority revenue share. It fixes its purchases towards its confirmed sales order on the same day of the sale at prevailing prices to minimize price risks. It also hedges 97% of its foreign currency transactions by booking forward contracts thereby mitigating foreign exchange fluctuation risk to a significant extent. The company's ability to compete with number of organised and unorganised players with maintaining profitability margins remains the key rating sensitivities. Nevertheless, the extensive experience of promoter through their association with group entity along with established marketing and distribution network is expected to support the operations of the company.

The operating income of the firm has shown tremendous growth in initial phase of operation on back of strong marketing arrangements and healthy network of Mr. Munjal Dalal, who heads marketing division. It has increased from Rs. 10.75 crore in FY2014 to Rs. 292.73 crore in FY2016.

Analytical approach:
Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

About the Company:

Established as proprietorship firm in the year 2010 by Mr. Vinod Patel, Gujarat Cotton Corporation (GCC) is engaged in trading of cotton bales and cotton waste in domestic as well as in international market. In October 2013, GCC was converted into partnership firm by adding two new partners, Mr. Munjal Dalal and Mr. Rajnikant Patel. Mr. Vinod Patel has vast experience of more than two decades in cotton trading business. The firm operates from Ahmedabad in Gujarat. The firm has been accorded status of "Two Star Export House" by Directorate General of Foreign Trade, Government of India.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014
				February 2017	January 2017		
1	Export Packing Credit	Long Term	25.00	[ICRA] BB-(Stable)	[ICRA]BB-(Stable)	-	-
2	Bill Discounting	Short Term	NIL		[ICRA]A4	-	-
3	Credit Exposure Limit	Short Term	NIL		[ICRA]A4	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in



Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Export Packing Credit	-	-	-	25.00	[ICRA]BB-(Stable)

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