

April 19, 2017

Boss Cotton and Oil Industries

Instrument*	Rated Amount (in crore)	Rating Action
Cash credit	5.00	[ICRA]B- (Stable) assigned
Term loan	1.95	[ICRA]B- (Stable) assigned
Unallocated limits	1.55	[ICRA]B- (Stable) assigned
Total	8.50	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned a long-term rating of [ICRA]B- (pronounced ICRA B minus) to the Rs. 5.00 crore cash credit, Rs. 1.95 crore term loan and Rs. 1.55 crore unallocated facilities of Boss Cotton and Oil Industries (BCOI). The Outlook on the long-term rating is Stable.

Rationale

The assigned rating is constrained by the firm's small scale of operations and weak financial risk profile marked by steep de-growth in sales and cash loss in 9M FY2017, adverse capital structure and weak debt-coverage indicators. The rating also factors in the vulnerability of the firm's profitability to agro-climatic risks, the inherently low value-adding ginning business and the firm's exposure to stiff competition in a fragmented industry caused by the presence of numerous small and unorganised players. ICRA also notes that as BSOI is a partnership firm, any significant withdrawals from the capital account by the partners could adversely affect its net worth and thereby its capital structure.

The rating, however, continues to draw comfort from the long experience of the promoters in the cotton industry and the locational advantage by the firm by virtue of its location in the cotton-producing region, giving it easy access to quality raw cotton.

Key rating drivers

Credit Strengths

- Long experience of promoters in the cotton ginning industry
- Favorable location of the unit in Rajkot (Gujarat), a cotton producing belt of India, giving easy access to quality raw cotton

Credit Weakness

- Weak financial risk profile marked by adverse capital structure and poor debt-coverage indicators
- Small scale of operations; significant revenue de-growth during 9M FY2017 leading to cash loss
- Low profitability because of limited value addition and highly competitive and fragmented industry structure given the low entry barriers
- Vulnerability of profitability to fluctuations in raw cotton prices, which are subject to seasonality and crop harvest
- Exposure to regulatory risks with regards to Minimum Support Price (MSP) for raw cotton as well as imposition of any restriction on cotton exports by Government of India (GOI)
- Partnership firm; any substantial withdrawal from capital account could impact the net worth and thereby the capital structure of the firm

Description of key rating drivers highlighted above:

BCOI is engaged in ginning and pressing of raw cotton and crushing of cotton seeds with the product profile comprising cotton bales, cotton seeds, cotton seed oil and cake. During first full year FY2016, the ginning capacity utilization remained low at around 9% and the crushing capacity utilisation remained at 27%. The production facility of the firm remained suspended from June 2016-Dec 2016 in the current fiscal, which resulted into steep decline in operating income to Rs. 1.4 crore during 9M FY2017 as against Rs. 19.4 crore in FY2016. The operating profitability of the firm remained low at 3.2% and 4.2% in FY2015 and FY2016 respectively. The firm reported net loss in FY2015 and FY2016 owing to higher interest and depreciation expenses due to initial debt funded capex and further during 9M FY2017, it reported cash loss due to significant revenue de-growth. The capital structure of the firm remained adverse as reflected by gearing at 11.5 times as on March 31, 2016 owing to initial debt funded capex and high working capital debt requirements coupled with erosion of net worth due to net losses.

The cotton ginning industry is highly fragmented due to the presence of numerous players operating in Gujarat, resulting in high competition. The industry is also exposed to regulatory risks with the government imposing MSP on purchase of raw cotton during over supply in the market and restricting export of cotton bales in order to support the domestic cotton textile industry.

The firm is expected to report significant revenue de-growth in FY2017 due to suspension of production facility during June 2016 to Dec 2016. Given the cash loss during 9M FY2017, the partners' ability to support the timely debt repayments would remain key rating sensitivities. Furthermore, the firm's ability to improve its scale of operations, manage its working capital requirements efficiently and improve its capital structure would remain important from credit perspective.

Analytical approach: For arriving at the ratings, ICRA has taken into account the BCOI's business risk profile, financial risk drivers and management profile.

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf>

About the Company:

Established in 2014 as a partnership firm, Boss Cotton and Oil Industries (BCOI) is engaged in cotton ginning and cotton seed crushing operations to produce cotton bales, cotton seeds, cotton seed oil and cotton seed oil cake. The manufacturing facility of the firm is located at Rajkot, Gujarat and is equipped with 40 ginning machines, 1 pressing machines and 5 crushing machines. The total intake capacity for raw cotton is 26,880 MTPA and the intake capacity for expellers is 14,400 MTPA of cotton seeds.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

Sr. No	Name of Instrument	Current Rating (2017)			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
				April 2017	-	-	-
1	Cash Credit	Long Term	5.00	[ICRA] B- (Stable)	-	-	-
2	Term loan	Long Term	1.95	[ICRA] B- (Stable)	-	-	-
4	Unallocated limits	Long Term	1.55	[ICRA] B- (Stable)		-	-

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/ sanction	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	5.00	[ICRA] B- (Stable)
Term Loan	January-2014	-	June-2020	1.95	[ICRA] B- (Stable)
Unallocated limits	-	-	-	1.55	[ICRA]B- (Stable)

Name and Contact Details of the Rating Analyst(s):

Subrata Ray
+91 22 2433 1086
subrata@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Mihir Patel
+91 79 4027 1524
mihir.patel@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com



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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500