

May 30, 2017

Om Cotton & Oil Industries

Summary of rated instruments

| Instrument* | Rated Amount (in crore) | Rating Action |
|--------------------------|----------------------------|-------------------------------|
| Fund-based – Cash Credit | 5.00 | [ICRA]B+ (Stable); Reaffirmed |
| Fund-based – Term Loan | 0.01 | [ICRA]B+ (Stable); Reaffirmed |
| Unallocated Limits | 1.24 | [ICRA]B+ (Stable); Reaffirmed |
| Total | 6.25 | |

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B+ (pronounced ICRA B plus)¹ on the Rs. 5.00-crore² fund-based cash credit facility, Rs. 0.01-crore fund-based term loan facility and Rs. 1.24-crore unallocated limits of Om Cotton & Oil Industries (OCOI). The outlook on the long-term rating is 'Stable'.

Rationale

The rating reaffirmation factors in the firm's weak financial profile as reflected in its modest scale of operations (with ~45% revenue decline in FY2017), low profitability, weak coverage indicators and high working capital intensity owing to high inventory holding as on March 31, 2017. Further, the rating remains constrained by vulnerability of the firm's profitability to agro-climatic risks and its exposure to stiff competition. ICRA also notes that OCOI is a partnership firm and any significant withdrawals from the capital account could adversely impact its net worth and thereby the credit profile.

Nonetheless, the rating continues to draw comfort from the long experience of the partners in the cotton ginning industry and the proximity of the firm's manufacturing unit to raw material sources, easing procurement.

Going forward, OCOI's ability to increase its scale of operations; improve its profitability and effectively manage its working capital requirements would remain important from the credit perspective.

Key rating drivers

Credit strengths

- Extensive experience of the partners in cotton ginning industry
- Location advantage by virtue of proximity to raw materials

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Credit weaknesses

- Modest scale of operation with decline in revenue reported in FY2017
- Financial profile characterised by low profitability, weak debt coverage indicators and high working capital intensity
- Limited value addition; highly competitive and fragmented industry structure with low entry barriers restricts pricing flexibility
- Vulnerability of profitability to fluctuations in raw cotton prices, which are subject to seasonality and crop harvest
- Risks associated with partnership form of business in terms of continuity, capital infusions and withdrawals

Description of key rating drivers:

OCOI gins and presses raw cotton to produce cotton bales and cotton seeds at its plant at Hirapar, Morbi in Gujarat, which has an installed capacity of 230 bales per day. Earlier the firm was also engaged in crushing of cotton seeds to produce cotton seed oil and oil cake; however, it discontinued crushing operations from FY2016. A majority of the firm's sales is derived from sale of cotton bales in the domestic market. The firm's manufacturing unit is located in Hirapur, which is in proximity to the cotton producing belt of Gujarat, providing easy access to raw material. OCOI's partners have long experience in the cotton ginning industry.

The operating income of the firm witnessed a sharp decline of ~45% in FY2017 and stood at Rs. 14.01 crore as compared to Rs. 25.33 crore in FY2016, owing to lower volume sales. The profitability continued to remain low, with operating profit margins of 4.34% and net margins of 0.27% in FY2017 due to limited value-added nature of operations coupled with intense competition. The firm's working capital intensity remained high at 33% as on March 31, 2017 owing to high inventory levels as on year-end. The cotton ginning industry is highly fragmented due to the presence of numerous players operating in Gujarat, leading to high competition. The industry is also exposed to regulatory risks with the Government imposing MSP on the 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.

Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Established in 2012, Om Cotton & Oil Industries (OCOI) is involved in cotton ginning and pressing business. The manufacturing facility of the firm is located in Hirapar District Morbi, Gujarat and is currently equipped with 24 ginning machines and one fully automatic pressing machine, with a capacity to manufacture 230 bales per day (24 hours operations). The firm is owned and managed by Mr. Harjivan Jivani and Mr. Sanjay Jivani along with two other partners.

The firm reported a profit before tax of Rs. 0.04 crore on an operating income of Rs. 14.01 crore as per provisional financials in FY2017, as compared to a net loss of Rs. 0.20 crore on an operating income of Rs. 25.33 crore in the previous year.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

| S. No. | Instrument | Current Rating (FY2018) | | | Chronology of Rating History for the past 3 years | | |
|--------|-------------|-------------------------|--------------------------|-------------------|---|-------------------------|-------------------------|
| | | Type | Amount Rated (Rs. Crore) | Date & Rating | Date & Rating in FY2017 | Date & Rating in FY2016 | Date & Rating in FY2015 |
| | | | | May 2017 | May 2016 | April 2015 | May 2014 |
| 1 | Cash Credit | Long Term | 5.00 | [ICRA]B+ (Stable) | [ICRA]B+ | [ICRA]B+ | [ICRA]B+ |
| 2 | Term Loan | Long Term | 0.01 | [ICRA]B+ (Stable) | [ICRA]B+ | [ICRA]B+ | [ICRA]B+ |
| 4 | Unallocated | Long Term | 1.24 | [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
Instrument Details

| Instrument | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|-------------------|------------------------------------|--------------------|----------------------|---------------------------------|-----------------------------------|
| Cash Credit | - | - | - | 5.00 | [ICRA]B+ (Stable) |
| Term Loan | June 2013 | - | May 2017 | 0.01 | [ICRA]B+ (Stable) |
| Unallocated | - | - | - | 1.24 | [ICRA]B+ (Stable) |

Source: Om Cotton & Oil Industries

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