

## Gujarat Cotfib

Instrument	Amount (Rs. in crore)	Rating Action
Fund based -Cash Credit Limit	13.75	[ICRA]B; Reaffirmed
Non Fund Based – Bank Guarantee	0.33	[ICRA]A4; Reaffirmed

ICRA has reaffirmed the [ICRA]B (pronounced ICRA B plus) rating to the Rs. 13.75 crore term cash credit facility and [ICRA]A4 to the Rs. 0.33 crore non fund-based Bank Guarantee of Gujarat Cotfib.

The reaffirmation of rating continues to be constrained by GC's de-growth in revenue witnessed in FY2014-15 and FY2015-16. The financial profile of the firm also remained weak as can be reflected from its low profitability, weak debt coverage indicators and highly leveraged capital structure on account of significant withdrawal of capital by partners. The ratings are further constrained by the highly competitive and fragmented industry structure owing to low entry barriers; and the vulnerability of the firm's profitability to raw material (i.e. cotton) prices, which are subject to seasonality, crop harvest and regulatory risks. ICRA also notes that as GC is a partnership firm, any significant withdrawals from the capital account by the partners would adversely affect its net worth and thereby its capital structure.

The rating, however, favorably factors in long experience of the partners in the cotton industry and location advantage of the firm by virtue of its location in the cotton producing belt in Gujarat.

ICRA expects GC's revenues to witness substantial de growth of ~20% during FY2015-16 mainly due to weak demand scenario. The profitability is expected to in line with the previous fiscals given the stable outlook on prices. However the firm's ability to scale up the operations would be largely contingent to improvement in international demand, given the seasonality in the business, volatility in prices of cotton, high competitive intensity and uncertain regulatory scenario. Further the firm's ability to infuse funds to support its capital structure and manage its working capital efficiently would be a key rating monitorable.

### Firm Profile

Established in 2008, Gujarat Cotfib (GC) is a partnership firm. The firm reconstituted its partnership in 2016 wherein out of existing nine partners, six partners took retirement and the firm is presently managed by three partners i.e. Mr. Girdhar Vekariya, Mr. Amit Vekariya and Mr. Vijay Vekariya. GC is engaged in the business of cotton ginning and pressing of raw cotton to produce cotton bales and cottonseeds. The firm is also engaged in crushing of cotton seeds to produce cotton seed oil and oil cake. The firm's manufacturing facility is located at Tapi Gujarat and is currently equipped with 40 ginning machines and 1 pressing machine having a capacity to produce 350 cotton bales per day and 8 expellers to produce cotton seed oil with a capacity of producing 15 tons of oil per day.

### Recent Results

For the year ended 31st March, 2015, the firm reported an operating income of Rs. 119.00 crore with profit after tax (PAT) of Rs. 0.30 crore. Further during FY2015-16 as per provisional unaudited numbers; the firm has reported operating income of Rs. 85.00 crore with profit after taxes of Rs. 0.60 crore.

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