

Vishwas Cotton Industries

November 30, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	0.53	0.22	[ICRA]B (Stable) Reaffirmed; Removed from Issuer Not Cooperating category
Fund-based - Working Capital Facilities	5.00	4.75	[ICRA]B (Stable) Reaffirmed; Removed from Issuer Not Cooperating category
Unallocated limits	0.47	1.03	[ICRA]B (Stable) Reaffirmed; Removed from Issuer Not Cooperating category
Total	6.00	6.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings remain constrained by the company's weak financial risk profile, characterised by modest-scale operations, low profitability, moderate capital structure and below-average debt coverage indicators. The ratings also factor in the vulnerability of the firm's profitability to adverse fluctuations in raw material prices (raw cotton), considering the inherently low value-added ginning business and the stiff industry competition. Further, it is also exposed to regulatory risks with regard to the minimum support price (MSP), which is set by the Government. ICRA also notes the potential adverse impact on the firm's net worth and the gearing levels in case of any substantial withdrawal from capital accounts, given that it is a partnership concern.

The ratings, however, continue to favourably factor in the experience of the promoters in the cotton industry and the proximity of the firm's manufacturing plant to raw materials.

Outlook: Stable

ICRA believes Vishwas Cotton Industries will continue to benefit from the experience of its partners in the cotton industry. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management strengthen the financial risk profile. The outlook may be revised to Negative if the firm reports substantial decline in scale and profitability, leading to inadequate cash accruals, or if any major capital expenditure or capital withdrawal, or stretch in the working capital cycle weakens the capital structure and the liquidity.

Key rating drivers

Credit strengths

Experience of partners in cotton industry – Established in 2013, VCI is managed by nine partners having extensive experience in the cotton ginning industry through their association with other entities engaged in the cotton industry, resulting in established relationships with customers.

Location-specific advantage - The firm benefits in terms of low transportation cost and easy access to raw cotton due to the strategic location of the plant in the Saurashtra region of Gujarat, an area of high cotton acreage and quality cotton crop.

Credit challenges

Weak financial risk profile characterised by modest scale and weak coverage indicators - The firm grew at 17% to Rs. 33.78 crore in FY2018 from Rs. 28.88 crore in FY2017, though the scale continues to remain moderate. The operating margin of the firm continues to remain low, at 0.7% and 1.1% in FY2017 and FY2018, respectively, due to low value-added operation. The capital structure remained moderate, evident from the gearing of 1.24 times as on March 31, 2018, though it improved from 1.67 times as on March 31, 2017. Low profitability and high debt level resulted in weak debt protection metrics, with interest coverage of 1.04 times and Total Debt/OPBDITA of 6.78 times for FY2018.

Vulnerability of profitability to adverse fluctuations in raw material prices and regulatory changes - The firm's profitability remains exposed to fluctuation in raw material (raw cotton) prices, which depend on various factors such as seasonality, climatic conditions, international demand and supply situations, and export policy. Further, it is also exposed to regulatory risks with regard to the minimum support price (MSP) set by the Government.

Intense competition and fragmented industry structure - The company faces stiff competition from other small and unorganised players in the industry, given the commoditisation and low-entry barriers, which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins.

Risk associated with partnership firm - VCI, being a partnership firm, is exposed to adverse capital structure risk in case of substantial withdrawal from its capital accounts.

Liquidity Position:

VCI's cash flows remained positive in FY2018, following the reduction in working capital requirements. The utilisation of the CC limit stood moderate at ~53% in the last eighteen months, from April 2017 to September 2018. The liquidity is expected to remain adequate, supported by undrawn cash credit limits and VAT Subsidy of around Rs. 0.41 crore in FY2019, along with absence of any major capital expenditure plans in near to medium term.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer.

About the company:

Vishwas Cotton Industries was established as a partnership firm in December 2013 and is currently managed by nine partners. It is engaged in cotton ginning and pressing to produce cotton seeds and cotton bales. The company is equipped with 24 ginning machines and one pressing machine, having an installed capacity to produce 100 bales per day (29780 MTPA considering 12 hours of operations per day).

In FY2018, the company reported a net profit of Rs. 0.13 crore on an operating income of Rs. 33.78 crore, as compared to a net profit of Rs. 0.03 crore on an operating income of Rs. 28.88 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	28.88	33.78
PAT (Rs. crore)	0.03	0.13
OPBDIT/OI (%)	1.72%	1.86%
RoCE (%)	3.72%	6.67%
Total Debt/TNW (times)	10.02	6.78
Total Debt/OPBDIT (times)	10.02	6.78
Interest coverage (times)	1.81	1.61

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Chronology of Rating History for the Past 3 Years									
		Current Rating (FY2019)							
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating November 2018	Date & Rating in FY2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
1	Term Loan	Long Term	0.22	0.22 [^]	[ICRA]B (Stable)	November 2017 [ICRA]B (Stable); ISSUER NOT COOPERATING*	May 2017 [ICRA]B (Stable)	-	March 2016 [ICRA]B (Stable)
2	Cash Credit	Long Term	4.75	-	[ICRA]B (Stable)	[ICRA]B (Stable); ISSUER NOT COOPERATING *	[ICRA]B (Stable)	-	[ICRA]B (Stable)
3	Unallocated Limit	Long Term	1.03	-	[ICRA]B (Stable)	[ICRA]B (Stable); ISSUER NOT COOPERATING *	[ICRA]B (Stable)	-	[ICRA]B (Stable)

[^]As on September 30, 2019

*Moved to "Issuer Not-Cooperating" category based on non-submission of No Default Statement for two consecutive months.

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2014	10%	FY2019	0.22	[ICRA]B (Stable)
NA	Cash Credit	NA	10%	NA	4.75	[ICRA]B (Stable)
NA	Unallocated Limit	NA	NA	NA	1.03	[ICRA]B (Stable)

Source: Vishwas Cotton Industries

ANALYST CONTACTS

K. Ravichandran

+91 44 4596 4301
ravichandran@icraindia.com

Mayank Agrawal

+91 79 4027 1514
mayank.agrawal@icraindia.com

Suprio Banerjee

+91 22 6114 3443
supriob@icraindia.com

Anurag Bhootra

+91 79 4027 1526
anurag.bhootra@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents