

## Haji Alimohamed Moosa & Co.

January 15, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based: Term Loan	0.96	0.80	[ICRA]BB-(Stable); Upgraded from [ICRA]B+(Stable)
Fund-based: Working Capital Facilities	12.00	12.00	[ICRA]BB-(Stable); Upgraded from [ICRA]B+(Stable)
Non-fund based: Credit Exposure Limit of PFE	0.50	0.50	[ICRA]A4; Reaffirmed
Unallocated limits	0.14	0.30	[ICRA]BB-(Stable); Upgraded from [ICRA]B+(Stable)/[ICRA]A4; Reaffirmed
<b>Total</b>	<b>13.60</b>	<b>13.60</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The upgrade in the long-term rating factors in the rise in the entity's revenue over the years due to expansion of export sales with addition of new geographies. The ratings further favourably factors in the increase in export incentive, which will support the margins going forward. The ratings continue to favourably factor in the extensive experience of the partners in the cotton industry and the proximity of the firm's manufacturing plant to raw material sources.

The ratings, however, remains constrained by the firm's weak financial risk profile, characterised by low profit margins, leveraged capital structure and weak debt coverage indicators. The ratings also factor in the vulnerability of the firm's profitability to adverse fluctuations in raw material prices, considering the inherently low value-added ginning and crushing business and the stiff industry competition. Further, its operations also remain exposed to regulatory risks with regard to the minimum support price (MSP) 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 the capital accounts, given its constitution as a partnership concern.

### Outlook: Stable

ICRA believes HAMC 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 substantial capital infusion improve the capital structure. The outlook may be revised to Negative if substantial decline in scale and profitability leads to inadequate cash accruals, or if any major debt-funded capital expenditure or capital withdrawal or stretch in the working capital cycle weakens the capital structure and the liquidity.

## Key rating drivers

### Credit strengths

**Extensive experience of partners in cotton industry** - Established in 1959, Haji Alimohamed Moosa & Co. is managed by partners with over six-decade experience in the cotton industry through their association with other entities involved in similar operations, 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.

**Improvement in revenues with expansion in exports** - The firm's operating income (OI) grew to Rs. 89.29 crore in FY2018 from Rs. 67.45 crore in FY2017 with increase in sales volume of cotton bales. Further, the percentage of export sales increased to 35% of total sales in FY2018 from 19% in FY2017. Also, the increase in export incentive will further support the company's margins.

### Credit challenges

**Weak financial risk profile** - The firm's operating profitability continued to remain low, at 1.58% in FY2018 and 2.97% in FY2017, due to stiff competition and low value-added operations. Consequently, the net profit margin also remained low, at 0.73% in FY2018 compared to 0.96% in FY2017. The capital structure remained leveraged, with a gearing of 1.60 times as on March 31, 2018 against 1.96 times as on March 31, 2017. Low profitability and high debt levels resulted in weak debt protection metrics, as depicted by the interest coverage at 1.13 times, and Total Debt/OPBDITA at 8.62 times.

**Vulnerability of profitability to adverse fluctuations in raw material prices and regulatory changes** - The firm's profitability remains exposed to fluctuation in raw material 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 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 as commoditisation and low-entry barriers limit the pricing flexibility and bargaining power with customers, putting pressure on its revenues and margins.

**Risk associated with partnership constitution** - HAMC, being a partnership firm, is exposed to adverse capital structure risk, wherein any substantial capital withdrawal could negatively impact its net worth and capital structure.

### Liquidity position

The firm's cash flow was positive in FY2018, following the reduction in its working capital requirements. The average utilisation of the CC limit stood high, at 77%, from August 2017 to November 2018. The liquidity is expected to remain adequate, supported by receipt of sanctioned VAT subsidy of around Rs. 1.57 crore along with absence of any major capital expenditure plans in the near to medium term.

## Analytical approach

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

## About the company

Haji Alimohamed Moosa & Co. (HAMC) is involved in the business of ginning and pressing of raw cotton and crushing of cotton seeds and castor seeds to manufacture cotton bales, cottonseed oil, cotton cake, castor seed oil and castor cake. The firm is equipped with 24 ginning machines, one pressing machine and nine expellers, and has an installed capacity to manufacture 250 bales per day, 4500 MT of cotton seed oil and 6000 MTPA of castor seed oil. Additionally, it also trades agro products such as wheat, soyabean, tuar, urad, groundnut oil and cake. The firm was established as a sole proprietorship concern by Mr. Adambhai Halai in 1959 and was subsequently converted into a partnership firm in 2004. The firm has four partners—Mr. Adambhai, Mr. Aamirbhai, Mr. Noormohamed and Mrs. Shenazben. The manufacturing facility of the firm is located at Junagadh, Gujarat.

In FY2018, the firm reported a net profit of Rs. 0.65 crore on an OI of Rs. 89.29 crore, as compared to a net profit of Rs. 0.75 crore on an OI of Rs. 78.63 crore in the previous year.

## Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	78.63	89.29
PAT (Rs. crore)	0.75	0.65
OPBDIT/OI (%)	2.97%	1.58%
RoCE (%)	10.27%	9.46%
Total Debt/TNW (times)	1.96	1.60
Total Debt/OPBDIT (times)	5.80	8.62
Interest Coverage (times)	1.86	1.13

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated	Amount Outstanding	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
		(Rs. crore)	(Rs. crore)	Jan-19	Sep-17	Nov-16	Feb-16	
1 Term Loan	Long Term	0.80	0.80 <sup>^</sup>	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	[ICRA]B+	[ICRA]B+	
2 Cash Credit	Long Term	12.00	-	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	[ICRA]B+	[ICRA]B+	
3 Credit Exposure Limit of PFE	Short Term	0.50	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	
4 Unallocated Limit	Long Term/Short Term	0.30	-	[ICRA]BB-(Stable)/A4	[ICRA]B+(Stable)/A4	-	-	

<sup>^</sup>As on March 31, 2018

### 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](http://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	FY2016	9.40%	FY2024	0.80	[ICRA]BB-(Stable)
NA	Cash Credit	NA	9.40%	NA	12.00	[ICRA]BB-(Stable)
NA	Credit Exposure Limit of PFE	NA	NA	NA	0.50	[ICRA]A4
NA	Unallocated Limit	NA	NA	NA	0.30	[ICRA]BB-(Stable)/A4

Source: Haji Alimohamed Moosa & Co.

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