

Laxmikant Cotton

September 13, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Cash Credit	5.00	5.00	[ICRA]B(Stable) Reaffirmed; Removed from 'Issuer Non-cooperating' category
Fund-based -Term Loan	0.49	0.00	-
Unallocated	0.71	1.20	[ICRA]B(Stable) Reaffirmed; Removed from 'Issuer Non-cooperating' category
Total	6.20	6.20	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B (pronounced ICRA B) to the Rs. 5.00-crore¹ fund-based facility of Laxmikant Cotton (LC)². ICRA has also reaffirmed the long-term rating of [ICRA]B to the unallocated limit of Rs. 1.20 crore of LC. The outlook on the long-term rating is Stable. ICRA has also removed the rating from Issuer not cooperating category.

Rationale

The rating reaffirmation continues to remain constrained by the small scale of operation and is characterised by low profit margins, weak coverage indicators and high working capital intensity in FY2018. The rating also factors in the vulnerability of the firm's profitability to fluctuations in raw material prices in the inherently low value-added ginning business and the high competitive intensity, which pressurises the margins. ICRA also notes the potential adverse impact on the net worth and the gearing levels in case of substantial withdrawal from capital accounts.

The rating, however, continues to favourably factor in the extensive experience of partners in the cotton industry and the proximity of the firm's manufacturing unit to raw material (raw cotton).

Outlook: Stable

ICRA believes LC will continue to benefit from the past experience of its partners in the cotton industry. The outlook may be revised to Positive if healthy improvement in scale of operations and profitability; or substantial infusion of capital or prudent working capital management strengthens the capital structure and liquidity profile. The outlook may be revised to Negative if the firm reports substantial decline in scale and profitability, leading to inadequate net cash accruals or if any debt-funded capital expenditure deteriorates capital structure or any further capital withdrawals weakens the overall liquidity position of the firm.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Extensive experience of partner in cotton industry – LC was established in May 2013. The partners have extensive experience through their association with other entities engaged in the cotton business.

Location-specific advantage – The firm benefits in terms of lower transportation cost and easy access to quality raw material due to its proximity to raw material suppliers.

Credit challenges

Moderate financial profile – LC reported a growth of ~52% in operating income to Rs. 17.37 crore in FY2018 from Rs. 11.39 crore in FY2017 followed by increase in sales volumes. However, the profitability declined to 3.00% in FY2018 from 4.79% in FY2017 due to high raw material cost. Consequently, the net margin also stood low at 0.44% in FY2018. The total debt of the firm increased to Rs. 4.61 crore as on March 31, 2018 from Rs. 2.86 crore as on March 31, 2017 because of higher working capital. The capital structure continued to remain leverage with gearing of 1.24 times as on March 31, 2018. The coverage indicator remained weak, with interest coverage ratio of 1.14 times and high TD/OPBDITA of 8.86 times in FY2018. The working capital intensity stood high at 41% in FY2018 due to high inventory holding as on March 31, 2018. The average working capital utilisation stood high at ~83% for the period from June 2017 to June 2018.

Profitability remains vulnerable to agro-climatic condition and regulatory changes - The cotton ginning business is a low value-adding business. The profit margins are also exposed to fluctuations in raw material (raw cotton) prices, which depend on various factors such as seasonality, climatic conditions, international demand and supply situation, and export policy, etc. Further, it is also exposed to the regulatory risks with regards to the Minimum Support Price (MSP) set by the Government.

Intense competition and fragmented industry - The stiff competition from other small and unorganised players in the industry limits the firm's bargaining power with customers and suppliers and exerts pressure on its margins.

Adverse impact on net worth - LC, being a partnership firm, is exposed to adverse capital structure risk in case of substantial withdrawal from its capital accounts.

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 May 2013, Laxmikant Cotton (LC) is involved in the business of ginning and pressing of raw cotton to produce cotton bales and cotton seeds. Its manufacturing facility is located at Rajkot (Gujarat). The firm is equipped with 24 ginning machines and one pressing machine, with an installed capacity of processing 100 MT of raw cotton per annum. The promoters have an extensive experience in the cotton industry.

In FY2018 on a provisional basis, the firm reported a profit before tax of Rs. 0.08 crore on an operating income of Rs. 17.37 crore, as compared to a net profit of Rs. 0.09 crore on an operating income of Rs. 11.39 crore in the previous year.

Key financial indicators

	FY2017	FY2018 (provisional)
Operating Income (Rs. crore)	11.39	17.37
PAT (Rs. crore)	0.09	0.08
OPBDIT/OI (%)	4.79%	3.00%
RoCE (%)	5.39%	7.22%
Total Debt/TNW (times)	0.81	1.24
Total Debt/OPBDIT (times)	5.24	8.86
Interest coverage (times)	1.76	1.14

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Sept 2018	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
							Dec 2016	Feb 2016	
1	Cash Credit	Long Term	5.00	4.61*	[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B	[ICRA]B	
						ISSUER NOT COOPERATING	ISSUER NOT COOPERATING		
2	Term Loan	Long Term	0.00	-	[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B	[ICRA]B	
						ISSUER NOT COOPERATING	ISSUER NOT COOPERATING		
3	Unallocated	Long Term	1.20		[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B		
						ISSUER NOT COOPERATING	ISSUER NOT COOPERATING		

*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

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	Cash Credit	FY2013	-	-	5.00	[ICRA]B(Stable)
NA	Unallocated	-	-	-	1.20	[ICRA]B(Stable)

Source: Laxmikant Cotton

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