

## Nataraj Ginning & Pressing Mill

April 12, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	5.60	CARE B-; Stable; ISSUER NOT COOPERATING* (Single B Minus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE B; Stable; (Single B; Outlook: Stable)
<b>Total Bank Facilities</b>	<b>5.60</b> <b>(Rs. Five Crore and Sixty Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

#### Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated March 12, 2020, placed the rating(s) of Nataraj Ginning & Pressing Mill (NGPM) under the 'issuer non-cooperating' category as NGPM had failed to provide information for monitoring of the rating. NGPM continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and an email dated March 2020 to April 05, 2021. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).**

The ratings have been revised on account of non-availability of requisite information due to non-cooperation by Nataraj Ginning & Pressing Mill with CARE's effort to undertake a review of the outstanding ratings as CARE views information availability risk as key factor in its assessment of credit risk profile.

#### Detailed description of the key rating drivers

*At the time of last rating on March 12, 2020 the following were the rating strengths and weaknesses*

#### Key Rating Weakness

##### **Small scale of operation and short track record of business**

The firm had short track record of business operations, however long presence established by the proprietor in the market. Furthermore, the scale of operations of the entity remained small in marked by total operating income (TOI), remained small at Rs.14.47 crore in FY18 coupled with low net worth base of Rs.0.75 crore as on March 31, 2018 as compared to other peers in the industry.

##### **Working capital intensive nature of operations**

The operating cycle of the firm as on March 31, 2018 remained elongated at 88 days. The firm receives payment from its customers within 15-30 days and makes the payment to its suppliers within 1-2 weeks due to low bargaining power. The firm maintains its inventory for a period of 2-3 months since cotton being an agro commodity its production is seasonal (harvesting) from November to February in a year. Apart from that cotton ginners usually have to procure raw cotton in bulk to get better discount from its suppliers, mainly farmers. The average utilization of fund based working capital limits of the firm was 95% during the last 12 months period ended February 28, 2019.

##### **Proprietorship nature of constitution with inherent risk of withdrawal of capital**

Constitution of the entity as a proprietorship firm has the inherent risk of possibility of withdrawal of the capital at the time of personal contingency which can adversely affect its capital structure. Furthermore, proprietorship firms have restricted access to external borrowings as credit worthiness of the proprietor would be key factors affecting credit decision for the lenders. The proprietor has infused capital of Rs. 0.30 crore and Rs 0.13crore in FY17 and FY18 respectively.

##### **Highly fragmented industry with intense competition from large number of players**

The firm is engaged in manufacturing of cotton bales which is highly fragmented industry due to presence of large number of organized and unorganized players in the industry resulting in huge competition.

##### **Susceptibility of profits to volatile price fluctuation and seasonality associated with availability of cotton**

The cotton prices are volatile in nature and depend upon factors like, monsoon condition, area under cultivation, yield for the year, international demand supply scenario, export policy decided by the government and inventory carry forward of last year. Cotton being a seasonal crop is sown upto October and harvesting is done between January and may in peninsular part of India. Prices of cotton are at their lowest in harvesting season and trend up thereafter, depending upon supply-demand dynamics which results into a higher inventory holding period for the business.

### ***Leveraged capital structure and weak debt coverage indicators albeit improvement***

The capital structure of NGSP stood leveraged during the review period. NGSP's debt profile predominantly comprises of term loan. The debt equity ratio and overall gearing ratio of the firm improved from 12.44x and 21.59x respectively as on March 31, 2017 to 5.69x and 9.29x respectively as on March 31, 2018, due to increase in tangible net worth on account of accretion of profits to reserves along with repayment of term loans. The debt coverage indicators of the firm stood weak during the review period. Total debt/GCA improved from 49.65x in FY17 to 9.49x in FY18, due to increase in cash accruals and healthy PBILDT levels in absolute terms. The interest coverage ratio improved from 1.08x in FY17 to 2.02x in FY18 on account of increase in profits by absolute terms.

### **Key Rating Strengths**

#### ***Reasonable experience of proprietor in the cotton processing business***

The proprietor, Mrs. Shivarathri Narsamma, is associated with the cotton industry for around 8 years and looks after the overall management of the firm. Furthermore, the proprietor have also established a long standing relationship with the customers and suppliers (farmers) supplying raw cotton in the past also.

#### ***Location advantage***

NGPM located in one the major cotton growing areas in Telangana. Availability of raw material is not expected to be an issue as the firm procures raw material (raw cotton) from the traders located in and around Muthukur, Bhongir(Dist).

#### ***Growth in total operating income and satisfactory profitability margins during the review period***

The total operating income of the firm has increased from Rs 4.50 crore in FY17 to Rs 14.47 crore in FY18 on account increase in quantum of orders, along with full year operations in FY18, as in FY17 the firm was operational for 4 months. Furthermore, the firm has achieved sales of Rs. 6.00 crore in 11MFY19(Provisional). The PBILDT margin of the firm declined from 12.48% in FY17 to 10.15% in FY18 due to increase in manufacturing expenses owing to full year of operations in FY18, as compared to 4 months of operations in FY17.

Furthermore, there was a turnaround from net loss to net profit in FY18. The PAT margin stood at 2.16% in FY18. The PAT margins improved due to higher PBILDT levels in absolute terms.

#### ***Stable outlook of cotton industry***

Amongst all the cotton growing countries of the world, India ranks number one in cotton cultivation area spreading out to about 95 lakh hectares. Although only the second in cotton production in the world, India has several distinctions to its credit. The ginning outturn of the Indian cotton also presents a wide spectrum of variations from 24% to 42%.The purpose of ginning is to separate cotton fibers from the seed.

### **Analytical Approach:** Standalone

#### **Applicable criteria**

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios- Non-Financial Sector](#)

[Rating Methodology –Manufacturing Companies](#)

### **About the Firm**

Telangana based, Nataraj Ginning & Pressing Mill (NGPM) was established on April 1, 2015 and started the commercial operations from December 9, 2016. The firm was established as a proprietorship concern by Mrs. Shivarathri Narsamma and she is supported by her son Mr. Mahesh babu who is managing the overall business operations of NGPM. The firm is engaged in cotton ginning and pressing with a total installed capacity of 200 bales per day and the firm sells its products in and around Mothkur. The manufacturing unit is located in Mothkur, Telangana.

<b>Brief Financials (Rs. crore)</b>	<b>FY17(A)</b>	<b>FY18 (A)</b>
Total operating income	4.50	14.47
PBILDT	0.56	1.47
PAT	(0.29)	0.32
Overall gearing (times)	21.60	9.30
Interest coverage (times)	1.08	2.02

A;Audited

### **Status of non-cooperation with previous CRA: Nil**

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	October-2022	2.60	CARE B-; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	3.00	CARE B-; Stable; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; based on based available information

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	2.60	CARE B-; Stable; ISSUER NOT COOPERATING*	-	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (12-Mar-20)	1)CARE B+; Stable (18-Mar-19) 2)CARE B+; Stable (09-Apr-18)
2.	Fund-based - LT-Cash Credit	LT	3.00	CARE B-; Stable; ISSUER NOT COOPERATING*	-	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (12-Mar-20)	1)CARE B+; Stable (18-Mar-19) 2)CARE B+; Stable (09-Apr-18)

\*Issuer did not cooperate; based on based available information

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable****Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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