

## P. D. Sekhsaria Trading Company Private Limited

April 08, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	50.00 (Reduced from 70.00)	CARE BB; Negative	Downgraded from CARE BB+; Negative

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The downgrade of the ratings to the bank facilities of P.D. Sekhsaria Trading Company Private Limited (PDST) factors declining scale of operations in FY24 (FY refers to the period from April 01 to March 31) and in 11MFY25 on account of volatility in raw cotton prices and lack of favourable trading opportunities. The rating continues to be tempered by thin operating profitability margins owing to trading nature of business, modest net worth, product concentration risk, working capital intensive nature of operations, highly competitive nature of business, susceptibility of profit margins to linked with volatile cotton prices and exposure to regulatory risk and vagaries of nature. The ratings, however, continue to derive strength from the long-standing track record of the promoters in the cotton trading business, long standing relationship with customers and suppliers, conservative business model.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Substantial increase in scale of operations over Rs. 150 crores and maintenance of profit before interest, lease rentals, depreciation and taxes (PBILDT) margins above 5% on a sustained basis.
- Improvement in operating cycle to below 80 days on a sustained basis

#### Negative factors

- Deterioration in PBILDT margin to below 2% on a sustained basis
- Deterioration in overall gearing beyond 2.75x on a sustained basis
- Deterioration in operating cycle over 200 days

### Analytical approach: Standalone

#### Outlook: Negative

The continuation of 'Negative' outlook to the long-term ratings of PDST factors in CARE Ratings Limited (CARE Ratings) expectation that the operational performance of the company is anticipated to be subdued owing to volatility in cotton prices and muted demand which has a bearing on its liquidity and financial risk profile in the medium term. The outlook shall be revised to 'Stable' in case of higher than anticipated growth in scale and improvement in profitability.

### Detailed description of key rating drivers:

#### Key weaknesses

##### Significant decline in revenue and modest net worth base

The company has registered decline in revenue for 2 consecutive years. In FY24 TOI declined by 19.82% to Rs. 72.41 crore, in comparison the decline in FY23 was 67.65% to Rs. 90.32 crore from Rs. 279.16 crore in FY22. The declining trend continues in 11MFY25 as the company has been able to achieve Rs. 15.95 crore in sales. Political instability in Bangladesh, a key hub in the cotton supply chain, has disrupted production and export activities, exacerbating ongoing supply chain bottlenecks, putting downward pressure on cotton prices. These factors—along with unpredictable weather patterns and trade uncertainties—have created a tough environment for the cotton trading industry. Despite its established and long track record, the company's scale of operations remains relatively small, coupled with a modest net worth of Rs. 29.10 crore as on March 31, 2024. Relatively small net worth base limits the company's financial flexibility, especially during periods of crisis or industry downturns.

##### Thin profitability margins due to trading nature of business

The company's profitability remains thin, primarily due to the limited value-added nature of its trading business. Despite experiencing a significant revenue decline in FY24, the company managed to improve its PBILDT margin to 3.85% from 3.30% in FY23. A reason for the improvement is driven by the fact that the company did not incur any foreign exchange loss in FY24 and reduced selling and general administration (SG&A) overheads on account of lower scale of operations. However, these thin profit margins are further pressured by substantial interest expenses arising from working capital borrowings, which continue to

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

impact the company's overall financial performance. Additionally, the return on capital employed (ROCE) remained stable at 5.66% in FY24, unchanged from FY23.

#### **Product portfolio concentration risk**

PDST earns revenues from largely from cotton trading, this exposes the company's revenue to volatility in the production, demand, supply, and price of cotton. Furthermore, cotton trading is seasonal in nature with the peak season from December to March. The majority of sales occur during this period. Thus, the profit margins of PDST are susceptible to the risks related to trading in a single commodity as well as seasonal nature of business. In FY24, sales from cotton accounted for 67% of the company's TOI, a decrease from 82% in FY23. It is important to note that despite this shift, the company's financial performance remained subdued in FY24. PDST also trades in other commodities such as comber and crude palm oil which provide diversification opportunities. In FY24, the company's share of TOI from crude palm oil accounted for 26%.

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

The company's export sales are primarily supported by letters of credit (LC), which are discounted through banks, while purchases are made in cash. Additionally, cotton trading is seasonal, with sales concentrated between October and May, making operations working capital-intensive. The operating cycle elongated to 161 days in FY24 (PY: 137 days) largely on account of increase in collection period which has stretched to 135 days in FY24 from 96 days in FY23. The elongation in receivables position is also supported by the fact that over 52% of the outstanding debtors as on March 31, 2024, were outstanding for more than six months, a slight improvement from FY23 where the corresponding constitution was 62%. Elongation in receivables position increases liquidity pressure.

#### **Business operations exposed to regulatory risk and vagaries of nature coupled with presence in competitive and fragmented industrial landscape**

In India, the Government controls prices of cotton under the Minimum Support Price (MSP) mechanism and also cotton cultivation is affected due to changes in the weather conditions; hence the company is exposed to fluctuations in cotton and yarn prices. The company is primarily a cotton exporter and vulnerable to regulatory restrictions on cotton exports which is linked to the demand-supply dynamics in the domestic market. PDST operates in an intensely competitive commodity business marked by large number of participants. The industry is fragmented due to weak barriers to entry and relatively low technical and capital requirements, which affect pricing power of participants.

#### **Customer and geographical concentration risk**

Reliance on select customers exposes the company to customer concentration risk, and potential risks of financial instability if a key customer reduces their orders, switches to a competitor, or faces financial difficulties. The top 5 customers contributed ~57% of total sales in FY24 vis-à-vis 45% in FY23. The company's considerable portion of export revenue is from Bangladesh (~34% of FY24 TOI) and majorly all export sales are backed by Export LCs, in 11MFY25 the 42% of total revenue was from export sales to Bangladesh. It is important to note that increased exposure from customers in Bangladesh negatively impacts the company's financial stability stemming from political unrest from in the region. Diversification of customer profile as well as geography remains a key monitorable going forward.

#### **Key strengths**

##### **Moderate capital structure**

The company largely relies on working capital limits to meet its funding requirements. However, with higher utilization of these limits by the end of March 2024, the overall gearing increased, yet remained at a moderate level, to 0.69x as of March 31, 2024, compared to 0.27x on March 31, 2023. Total debt, primarily consisting of working capital borrowings rose to Rs. 18.99 crore as of March 31, 2024, up from Rs. 6.58 crore in the previous year. The net worth remained moderate at Rs. 29.10 crore as of March 31, 2024, slightly higher from Rs. 28.78 crore a year earlier.

##### **Risk management measures to mitigate price and operational risks**

The company as a cotton exporter is vulnerable to government interventions, such as restrictions on cotton exports and fluctuation in MSP, impacting cotton prices and demand-supply dynamics. PDST purchases cotton on a back-to-back basis and hedges commodity risk when holding inventory. The company books forward contracts as soon as an order is confirmed, thereby mitigating forex risk. To finance its exports, PDST avails a Packing Credit in Foreign Currency (PCFC) denominated in US Dollars (USD) from banks against which the forward contract is booked. The PCFC limits are naturally hedged by the USD payments received from customers. To manage counterparty risk, PDST ensures that its sales are either LC-backed, based on Cash against Documents, or secured with a 10% advance payment, with the remaining 90% paid upon presentation of shipping documents.

##### **Experienced promoters**

PDST was incorporated in 1987 as an export arm of J P Sekhsaria Group, amongst leading cotton traders in India. The company thus has a track record of more than three decades in the current line of business. Currently, the company's day-to-day operations are handled by Mr. Alok Sekhsaria, having an experience of more than 2 decades.

##### **Liquidity: Adequate**

Liquidity is characterized by sufficient cushion in accruals, PDST reported gross cash accrual of Rs. 0.93 crore in FY24 against nil repayment obligation. PDST had an unencumbered cash and bank balance of Rs. 4.04 crore as on March 31, 2024. In addition,

the average CC utilization for the 12 months ended January 31, 2025, stood at around 6%. These unutilized bank lines provide additional liquidity cushion.

### Environment, social, and governance (ESG) risks – Not applicable

### Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Wholesale Trading](#)

### About the company and industry

#### Industry classification

Macro Economic indicator	Sector	Industry	Basic industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

Incorporated in 1987, P. D. Sekhsaria Trading Co. Pvt. Ltd. (PDST) is an export arm of JP Sekhsaria Group which is engaged in trading of commodities mainly cotton. The registered office of the company is situated in Bathinda, Punjab and has branch offices in Maharashtra, Telangana, Tamil Nadu & Indore. The company is engaged in trading of cotton with exports comprising majority of its sales and during. PDST is a Government of India recognized Star Export Trading House

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	90.32	72.41
PBILDT	2.98	2.79
PAT	1.32	0.32
Overall gearing (times)	0.27	0.69
Interest coverage (times)	1.58	1.35

A: Audited UA: Unaudited; Note: these are latest available financial results

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

### Any other information - Not applicable

### Rating history for last three years: Annexure-2

### Detailed explanation of covenants of rated instrument / facility: Annexure-3

### Complexity level of instruments rated: Annexure-4

### Lender details: Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based-Working capital facilities		-	-	-	49.00	CARE BB; Negative
Fund-based-Working capital facilities		-	-	-	1.00	CARE BB; Negative

**Annexure-2: Rating history for last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based-Working capital facilities	LT	49.00	CARE BB; Negative	-	1)CARE BB+; Negative (18-Mar-24)	1)CARE BB+; Stable (05-Jan-23) 2)CARE BBB-; Stable (05-Apr-22)	-
2	Fund-based-Working capital facilities	LT	1.00	CARE BB; Negative	-	1)CARE BB+; Negative (18-Mar-24)	1)CARE BB+; Stable (05-Jan-23) 2)CARE BBB-; Stable (05-Apr-22)	-
3	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (05-Apr-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities – Not applicable****Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-Working capital facilities	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

## Contact us

<b>Media Contact</b>  Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:Mradul.Mishra@careedge.in">Mradul.Mishra@careedge.in</a>	<b>Analytical Contacts</b>  Akhil Goyal Director <b>CARE Ratings Limited</b> Phone: 022-67543590 E-mail: <a href="mailto:Akhil.Goyal@careedge.in">Akhil.Goyal@careedge.in</a>
<b>Relationship Contact</b>  Ankur Sachdeva Senior Director <b>CARE Ratings Limited</b> Phone: 912267543444 E-mail: <a href="mailto:Ankur.Sachdeva@careedge.in">Ankur.Sachdeva@careedge.in</a>	Darshan Shah Assistant Director <b>CARE Ratings Limited</b> Phone: 022-67543408 E-mail: <a href="mailto:darshan.shah@careedge.in">darshan.shah@careedge.in</a>
	Rajdeep Jain Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:Rajdeep.Jain@careedge.in">Rajdeep.Jain@careedge.in</a>

### About us:

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