

## Vijaya Maruthi TMC

November 27, 2019

Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	6.00	CARE B+; Stable (Single B Plus; Outlook Stable)	<b>Assigned</b>
<b>Total</b>	<b>6.00</b> <b>(Rupees six crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### **Detailed Rationale & Key Rating Drivers**

The rating assigned to the bank facilities of Vijaya Maruthi TMC (VM) are tempered by small scale of operations with low net worth base, declining and low profitability margins, leveraged capital structure and weak debt coverage indicators, working capital intensive nature of operations, highly fragmented industry with intense competition from large number of players and constitution of entity as a partnership firm with inherent risk of withdrawal of capital.

The rating is, however, underpinned by satisfactory track record of the firm and experienced partners, increase in total operating income during the review period, stable demand outlook of cotton industry and liquidity adequate.

### **Rating Sensitivities**

#### **Positive factors**

- Increase in the firm's scale of operations marked by growth in total operating income
- Improvement in capital structure marked by overall gearing below 2.00x

#### **Negative factors**

- Increase in debt levels
- Decline in profitability margins as marked by PBILDT margins below 2%

### **Detailed description of the key rating drivers**

#### **Key Rating Weaknesses**

##### ***Small scale of operations with low net worth base***

The scale of operations of the firm marked by total operating income (TOI) is remained small at Rs.37.08 crore in FY19 with low net worth base of Rs.2.59 crore as on March 31, 2019 as compared to other peers in the industry.

##### ***Declining and low profitability margins***

The profitability margins of the firm remained low and declined during the review period. The PBILDT margin declined from 3.84% in FY17 to 2.56% in FY19 due to increase in cotton prices. Moreover, the PAT margin has also seen declining from 0.29% in FY17 to 0.20% in FY19 and remained thin due to low operating profit that resulted in under absorption of financial expenses and depreciation provisions.

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

The capital structure of the firm marked overall gearing ratio remained leveraged during the review period. The overall gearing ratio improved from 4.31x as on March 31, 2017 to 3.18x as on March 31, 2018 due to increase in net worth due to accretion of profits to the net worth. The overall gearing ratio deteriorated to 3.79x as on March 31, 2019 due to increase in term loans coupled with increase in working capital bank borrowings due to availing of seasonal limits of Rs.2 crore additionally to meet the operating cycle. The debt profile of the firm as on March 31, 2019 comprises term loans (19%), working capital bank borrowings (69%) and unsecured loans from related parties (12%).

The total debt/GCA marginally improved from 13.53x in FY17 to 12.01x in FY18 at the back of decrease in total debt levels on account of repayment of term loan installments. However, the total debt/GCA deteriorated to 24.87x in FY19 due to increase in total debt levels coupled with decrease in cash accruals. The PBILDT/Interest coverage ratio has marginally deteriorated from 1.81x in FY17 to 1.77x in FY19 due to decrease in PBILDT levels.

The total debt/CFO has remained negative at 2.27x in FY19 due to negative cash flow from operations on account of increase in receivable and inventories.

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

The operating cycle of the firm is working capital intensive nature of operations stood at 65 days in FY19 increasing from 50 days in FY18 mainly at the back of increase in inventory days of finished stock from 20 days in FY18 to 47 days in FY19 due to holding of finished stock at the end of March 31, 2019 due to unprofitable market conditions to sell the products in the market. The company holds inventory levels up to 30 days and makes the payment to farmer and dealers within 30 days. In turn the firm receives the payment from its customers within 30 days. Further, the firm has increased credit

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

period to its existing customers from 30 to 45 days hence the collection period increases from 35 days in FY18 to 40 days in FY19.

The utilization of working capital facility stood at 95 per cent in the last twelve months ended with November 18, 2019.

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

The firm is engaged in cotton ginning and pressing which is highly fragmented industry due to presence of large number of organized and un-organized players in the industry resulting in high competition.

***Constitution of entity as a partnership firm with inherent risk of withdrawal of capital***

With the entity being a partnership firm, there is an inherent risk of instances of capital withdrawal by the partners resulting in deterioration of the entity's net worth. Further the partnership firms are attributed to limited access to funding.

**Key Rating Strengths**

***Satisfactory track record of the firm and experienced partners***

VM was established in the year 2012 by Mr. G.M. Srinivasa Rao and his family members. Mr. G.M. Srinivasa Rao is qualified graduate in B.Com and he is the Managing Partner of the firm who takes care of day to day operations. He has more than one decade of experience in cotton industry. Through his vast experience in the industry he has established good relationship with customers and suppliers and is expected to be beneficial to the firm in the future also

***Growth in total operating income during the review period***

The total operating income (TOI) of the firm has gradually increased from Rs.32.05 crore in FY17 to Rs.37.08 crore in FY19 at the back of increase in repeated orders from its existing customers and addition of new customers. Furthermore, the firm has reported total revenue of Rs.18 crore in 7MFY20 (Prov.).

***Stable demand outlook of cotton industry***

The organization is engaged in the ginning and pressing of cotton which involves very limited value addition and hence results in thin profitability. Moreover, on account of large number of units operating in cotton ginning business, the competition within the players remains very high resulting in high fragmentation and further restricts the profitability. Thus, ginning players have very low bargaining power against its customer as well as suppliers. Prices of raw material i.e. raw cotton are highly volatile in nature and depend upon factors like, area under production, yield for the year, international demand supply scenario, export quota decided by government and inventory carry forward of last year. Ginners usually have to procure raw materials at significantly higher volume to bargain bulk discount from suppliers. Further, cotton being a seasonal crop as it is available mainly from November to February results into a higher inventory holding period for the business. Thus, aggregate effect of both the above factors results in exposure of ginners to price volatility risk.

***Liquidity Adequate***

The firm has adequate liquidity of 1.18x as on March 31, 2019 characterized by sufficient cushion of cash accruals vis-à-vis repayment obligations and cash balance of Rs.0.15 crore as on March 31, 2019. Its bank limits are utilized to the extent of 95% and supported by above unity current ratio.

**Analytical approach: Standalone**

**Applicable criteria**

[CARE's 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**

Andhra Pradesh based, Vijaya Maruthi TMC (VM) was established as a Partnership Firm in 2012. VM was promoted by Mr. G.M. Srinivas Rao and his family members. The firm is engaged in the cotton ginning and pressing. The registered office of the firm is located at Guntur District, Andhra Pradesh. The firm purchases raw cotton from local farmers located in and around Andhra Pradesh and from dealers in and around from state of Tamil Nadu and Odhissa. The firm sells the final product to the spinning units located in Andhra Pradesh and Tamil Nadu. The firm has an installed capacity of processing 200 bales per day as on November 18, 2019.

Brief Financials (Rs. crore)	FY18(A)	FY19(A)
Total operating income	33.51	37.08
PBILDT	1.12	0.95
PAT	0.10	0.07
Overall gearing (times)	3.18	3.79
Interest coverage (times)	1.80	1.78

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for 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-Cash Credit	-	-	-	6.00	CARE B+; Stable

**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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	6.00	CARE B+; Stable	-	-	-	-

**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.

## Contact us

### Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Mr. Manish Kumar

Contact no: 040-67937415

Email: [manish.kumar@careratings.com](mailto:manish.kumar@careratings.com)

### Business Development Contact

Mr. Rakesh Raghuwamshi

Contact no: +91-40- 40102030

E-mail: [rakesh.raghuwamshi@careratings.com](mailto:rakesh.raghuwamshi@careratings.com)

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