

May 14, 2016

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	11.60	SMERA BB-/Stable (Assigned)
Term Loan	2.15	SMERA BB-/Stable (Assigned)

SMERA has assigned rating of '**SMERA BB- (read as SMERA double B minus)**' to the above mentioned bank facilities of Siddharth Fibre. The outlook is '**Stable**'. The rating draws comfort from the firm's experienced management, healthy revenue growth, improvement in margins and moderate financial risk profile. However, the rating is constrained by the working capital intensive operations, volatility in raw material prices and changes in government regulations in an intensely competitive cotton ginning industry. The rating also factors in risks related to the partnership constitution of the firm.

Siddharth Fibre benefits from the extensive experience of its management in cotton ginning. Revenues of the firm increased to Rs.145.87 crore in FY2014-15 from Rs.88.92 crore in FY2013-14. The margins registered an improvement to 2.45 per cent in FY2014-15 as against 2.22 per cent in FY2013-14. The financial risk profile has been moderate marked by gearing of 1.93 times and interest coverage ratio at 1.72 times for FY2014-15. However, the tangible net worth of Rs.9.64 crore includes unsecured loans of Rs.4.44 crore that are subordinated to bank debt as on March 31, 2015.

The firm's operations are working capital intensive with full utilisation of bank limits. The liquidity stretch is on account of delayed receipts from customers. The profit margins of the firm are susceptible to volatility in raw material prices and changing government regulations. Besides, adverse movement of cotton prices can have a major bearing on the firm's profitability.

Rating Sensitivity Factors

- Volatility in raw material prices
- Improvement in profit margins and increase in scale of operations
- Adverse changes in government policies

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Outlook: Stable

SMERA believes that Siddharth Fibre will continue to benefit over the medium term from its established presence in the ginning industry and experienced management. The outlook may be revised to 'Positive' if the scale of operations increases substantially while also improving operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' if it fails to achieve the scalability amidst intensifying competition in its area of operation. Deterioration in the financial risk profile owing to higher-than-expected increase in debt-funded working capital requirements and adverse change in government policies may also entail a 'Negative' outlook.

About the Firm

Siddharth Fibre, a Madhya Pradesh-based partnership firm was established in 2009 by Mr. Shekhar Chand Patni and Mr. Jugal Kishore Jain. The firm is engaged in cotton ginning, oil extraction and trading of cotton seeds. The manufacturing facilities are located at Anjad (Madhya Pradesh), Jintur (Maharashtra) and Jogipeth (Andhra Pradesh). The ginning capacity stands at 250 bales per day while the oil extraction capacity is 500 tonnes per month.

For FY2014–15, Siddharth Fibre reported net profit of Rs.0.90 crore on operating income of Rs.145.87 crore, as compared with profit after tax (PAT) of Rs.0.83 crore on operating income of Rs.88.92 crore in FY2013–14.

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