

Press Release

Siddharth Fibre

August 09, 2017



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 13.75 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB-**' (**read as SMERA BB minus**) on the Rs. 13.75 crore bank facilities of Siddharth Fibre. The outlook is '**Stable**'.

Siddharth Fibre (SF), 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.

Key Rating Drivers

Strengths

- **Experienced management**

SF commenced operations in 2009. The management has more than a decade of experience in the business.

- **Moderate financial riskprofile**

SF's financial risk profile is moderate marked by high gearing of 1.93 times as on 31 March, 2016. The interest coverage ratio is moderate at 1.90 times for FY2015-16 as against 1.72 times for FY2014-15. The tangible networth stood at Rs. 11.46 crore as on 31 March, 2016 as against Rs. 9.64 crore a year earlier. The TOL/TNW has been high at 2.39 times as on 31 March, 2016. Further, the firm booked revenue of Rs. 131.50 crore for FY2016-17 (Provisional).

Weaknesses

- **Highly competitive and fragmented industry**

Cotton ginning is a low margin business with limited value addition. The industry is fragmented and competitive with a large number of unorganised players.

- **Volatility in raw material prices and government regulations**

Prices of raw cotton are fixed by the government through Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with the suppliers as well customers. Adverse movement in cotton prices further impacts the profitability of the firm.

- **Working capital intensive operations**

Siddharth Fibre has working capital intensive operations marked by high gross current asset days of 113 days as on 31 March, 2016. This is on account of high inventory holding period of 83 days in FY2015-16 as against 39 days in FY2014-15. The working capital cycle has further deteriorated to 99 days in FY2015-16 as against 49 days in FY2014-15.

Analytical Approach

Standalone business and financial risk profile of the firm

Outlook: Stable

SMERA believes that Siddharth Fibre will maintain a stable outlook and 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 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 changes in government policies may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

For FY2015-16, Siddharth Fibre reported net profit of Rs.0.54 crore on operating income of Rs.45.55 crore, compared with profit after tax (PAT) of Rs.0.51 crore on operating income of Rs.42.03 crore in FY2014-15.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-May-2016	Cash Credit	Long Term	INR 11.6	SMERA BB- / Stable
	Term Loan	Long Term	INR 2.15	SMERA BB- / Stable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.60	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.15	SMERA BB- / Stable

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