

Press Release

Siddhivinayak Cottex

January 25, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 6.40 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) to the Rs. 6.40 crore bank facilities of Siddhivinayak Cottex (SC). The outlook is '**Stable**'.

Established in 2015, SC is a partnership firm engaged in cotton ginning and pressing at Umred in Nagpur. The firm has an installed capacity of 240 bales per day (i.e 970 quintals per day). The commercial operations commenced from February 2016.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SC for arriving at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The promoters, Mr. Shyamsunder Jivandas Batra and Mr. Deepak Ghanshyamdas Rajpuriya have experience of more than three years in the textile industry and over a decade in the electrical industry.

- **Abundant availability of raw material and labour**

The firm benefits from the abundant availability of raw material and labour on account of proximity to the cotton growing belt of Maharashtra - Vidarbha. Acuite believes that the firm will continue to benefit over the medium term on account of the above.

- **Effective working capital management**

The firm has efficiently managed its working capital as reflected in Gross Current Assets (GCA) of 87 days in FY2018 as against 122 days in FY2017. The inventory holding period stood at 45 days in FY2018 against 80 days in FY2017. Collection period stood at 32 days in FY2018 as against 41 days in FY2017. Acuite believes that the firm's ability to maintain its working capital efficiently will remain a key to maintain a stable credit profile.

Weaknesses

- **Average financial risk profile**

The financial risk profile of SC remained average marked by moderate net worth of Rs.2.43 crore as on 31 March, 2018 as against Rs.3.51 crore as on 31 March, 2017. The gearing stood at 2.66 times as on 31 March, 2018 as against 1.93 times as on 31 March, 2017. The total debt of Rs.6.45 crore as on 31 March, 2018 comprises Rs.2.31 crore of long term loan and Rs.4.14 crore of short term working capital borrowing. Interest Coverage Ratio (ICR) stood at 2.48 times for FY2018 as against 3.10 times for FY2017. NCA/TD (Net cash accruals to total debt) ratio remained at 0.09 times in FY2018.

- **Highly competitive and fragmented textile industry**

The firm is exposed to intense competition in the fragmented textile industry with a large number of organised and unorganised players affecting margins.

Outlook: Stable

Acuite believes that SC will maintain 'Stable' outlook over the medium term on the back of experienced management, abundant availability of raw material and efficient working capital management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues while improving profitability along with improved financial risk profile. Conversely the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or in case of deterioration in the financial risk profile or significant elongation in working capital cycle.

Liquidity Position

SC has stressed liquidity marked by low net cash accruals to its maturing debt obligations. The net cash accruals stood at Rs.0.59 crore in FY2018 as repayment obligation of Rs.0.43 crore. The accruals of the firm are estimated to remain in the range of Rs. 0.80 to Rs. 1.30 over the medium term. There has been an improvement in the firm's highly working capital cycle marked by Gross Current Assets (GCA) of 87 days in FY2018 against 122 days in FY2017. However, the bank lines remain fully utilized during the peak season and the firm is provided with temporary overdraft facilities from the bank. The current ratio stood at 1.25 times in FY2018 as against 1.26 times in FY2017. Acuite believes that the liquidity of the firm is likely to remain stressed owing to its seasonal nature of business.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	31.20	26.54	9.26
EBITDA	Rs. Cr.	0.97	1.40	0.67
PAT	Rs. Cr.	0.27	0.56	0.19
EBITDA Margin	(%)	3.10	5.26	7.26
PAT Margin	(%)	0.87	2.12	2.06
ROCE	(%)	6.96	10.80	10.48
Total Debt/Tangible Net Worth	Times	2.66	1.93	4.45
PBDIT/Interest	Times	2.48	3.10	4.25
Total Debt/PBDIT	Times	6.56	4.84	10.23
Gross Current Assets (Days)	Days	87	122	231

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12-Jan-2018	Term Loan	Long Term	2.00	ACUITE B+ / Stable (Upgraded)
	Cash Credit	Long Term	3.70	ACUITE B+ / Stable (Upgraded)
	Proposed Bank Facility	Long Term	0.70	ACUITE B+ / Stable (Upgraded)
05-Oct-2016	Term Loan	Long Term	2.70	ACUITE B / Stable (Assigned)

	Cash Credit	Long Term	3.70	ACUITE B / Stable (Assigned)
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*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	1.52	ACUITE B+ / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.70	ACUITE B+ / Stable (Reaffirmed)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.18	ACUITE B+ / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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