

Press Release

SIDDHIVINAYAK COTTEX

February 24, 2020



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) on 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

Acuité has considered standalone business and financial risk profile of SC to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

SC started its operations in 2016 under the leadership of its partners, Mr. Deepak G Rajpuriya and Mr. Shyamsunder J Batra who has industry experience of over two decades. The extensive experience has enabled the firm forge healthy relationships with customers and suppliers.

Acuité believes that the firm will continue to benefit from its experienced management and established relationships with customers.

- **Improvement in scale of operations**

The firm has reported healthy revenue growth with compounded annual growth rate (CAGR) of around ~30.21 percent through the last three years ended 31 March, 2019. The company reported revenue growth of ~44.25 percent with operating income of Rs.45.00 crore in FY2019 as against operating income of Rs.31.20 crore in FY2018. Acuité believes that scale of operations will remain at the same levels as the firm has registered revenues of ~Rs.14.94 crore (Provisional) for the period of April to December, 2019.

- **Comfortable working capital operations**

The working capital of SC is comfortable in nature marked by low Gross Current Asset (GCA) days of 51 for FY2019 as against 87 in the previous year. This is on account of low debtor days which stood at 9 for FY2019 as against 32 for FY2018, further inventory days stood at 40 in FY2019 as against 45 in FY2018. Going ahead, the ability of the firm to efficiently manage its working capital requirements will remain a key rating sensitivity.

Weaknesses

- **Decline in profitability**

The operating margins of the firm is on a declining trend marked by 1.59 percent in FY2019 as against 3.10 percent in FY2018 and 5.26 percent in FY2017. This is majorly because of the fluctuation in raw material prices. Further, PAT margin is also on a declining trend marked by 0.66 per cent in FY2019 as against 0.87 per cent in FY2018 and 2.12 per cent in FY2017.

Acuité believes the ability of the firm to efficiently manage its profitability will remain the key rating sensitivity.

- **Average financial risk profile**

The financial risk profile is average marked by modest net worth and moderate debt protection measures and high gearing. The net worth of the firm is modest at Rs.3.78 crore as on 31 March 2019 as against Rs.2.43 crore as on 31 March 2018. The gearing (debt to equity) of the firm stood at 1.31 times as on March 31 2019 as against 2.66 times as on March 31 2018. Total debt of Rs.4.97 crore consists of term loan of Rs.1.41 crore and working capital facility of Rs.3.55 crore as on 31 March 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 1.78 times as on 31 March 2019 from 3.22 times as on 31 March 2018. Interest Coverage Ratio (ICR) stood at 2.81 times in FY2019 as against 2.48 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.11 times as on 31 March 2019 as against 0.09 times as on 31 March 2018. Debt Service Coverage Ratio (DSCR) stood at 1.15 times in FY2019 as against 1.19 times in FY2018.

Rating Sensitivity

- Significant Increase in scale of operations.
- Further deterioration in profitability.

Material Covenants

None.

Liquidity Position: Stretched

SC has stretched liquidity marked by net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.54 crore in FY2019 as against Rs.0.59 crore in FY2018 and Rs.0.95 crore in FY2017, while its maturing debt obligation was around Rs.0.43 crore for the same period. The firm's working capital operations are comfortable as marked by low gross current asset (GCA) days of 51 in FY2019. The firm maintains unencumbered cash and bank balances of Rs.0.03 crore as on March 31, 2019. The current ratio of the firm stands at 1.39 times as on March 31, 2019.

Outlook: Stable

Acuité believes that SC will maintain a 'Stable' business profile in the medium term, while benefitting from its experienced management and growth in operations. The outlook may be revised to 'Positive' if SC shows significant improvement in financial risk profile and revenues while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in-case of further deterioration in financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	45.00	31.20
PAT	Rs. Cr.	0.30	0.27
PAT Margin	(%)	0.66	0.87
Total Debt/Tangible Net Worth	Times	1.31	2.66
PBDIT/Interest	Times	2.81	2.48

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

Not Applicable

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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
25-Jan-2019	Term Loan	Long Term	1.52	ACUITE B+ / Stable (Reaffirmed)
	Cash Credit	Long Term	3.70	ACUITE B+ / Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	1.18	ACUITE B+ / Stable (Reaffirmed)
12-Jan-2018	Term Loan	Long Term	2.00	ACUITE B+/Stable (Upgraded from ACUITE B/Stable)
	Cash Credit	Long Term	3.70	ACUITE B+/Stable (Upgraded from ACUITE B/Stable)
	Proposed Bank Facility	Long Term	0.70	ACUITE B+/Stable (Upgraded from ACUITE B/Stable)
05-Oct-2016	Term Loan	Long Term	2.70	ACUITE B/Stable (Assigned)
	Cash Credit	Long Term	3.70	ACUITE B/Stable (Assigned)

*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 Loan	05-Oct-2015	11.05%	05-Oct-2022	1.52	ACUITE B+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.70	ACUITE B+/Stable (Reaffirmed)
Proposed 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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