

Press Release

Siddhivinayak Cottex

May 21, 2021

Rating Upgraded



Total Bank Facilities Rated*	Rs.6.40 Cr.
Long Term Rating	ACUITE BB-/Outlook: Stable (Upgraded from ACUITE B+/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to **'ACUITE BB-' (read as ACUITE double B minus)** from **'ACUITE B+' (read as ACUITE B plus)** on the Rs.6.40 crore bank facilities of Siddhivinayak Cottex (SC). The outlook is **'Stable'**.

Reason for upgrade

The rating is upgraded on account of improvement in revenue, efficient working capital management and moderate financial risk profile of the firm. The operating income of the firm stood at Rs.38.17 crore in FY2020 as against Rs.45.00 crore in FY2019. Though the revenue of the firm declined in FY2020, the firm showed improvement and recorded a revenue of around Rs.55.98 crore in FY2021, as per provisional YTD numbers. Also, the firm's PBDIT margin stood at 1.52 percent in FY2020 as against 1.59 percent in FY2019. PAT margin stood at 0.75 percent in FY2020 as against 0.66 percent in FY2019. Also, the working capital management stood efficient marked by GCA days of 63 days in FY2020 as against 51 days in FY2019. Also, the financial risk profile of the firm stood moderate marked by low net worth, low gearing and moderate debt protection metrics Acuité believes going ahead, the firm is likely to sustain its growth over the medium term due to its presence of experienced management.

About the rated entity

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. The commercial operations commenced from February 2016 under the leadership of its partners i.e. Mr. Deepak G Rajpuriya and Mr. Shyamsunder J Batra.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experience management

SC started its operations in 2016 under the leadership of its partners, Mr. Deepak G Rajpuriya and Mr. Shyamsunder J Batra. Both the partners have an 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 its customers and suppliers.

• Efficient working capital operations

The working capital management of the firm is efficient marked by Gross Current Asset (GCA) days of 63 days in FY2020 as against 51 days in FY2019. This is on account of increased albeit low receivables period of 29 days in FY2020 as against 9 days in FY2019. Inventory days stood at 32 days in FY2020 as against 40 days in FY2019. The average bank limit utilization remained fully utilized for the past trailing 6 months ended March 2021.

Acuité believes that efficient working capital management will be crucial to the firm in order to maintain a healthy risk profile.

Weaknesses

• Moderate financial risk profile

The financial risk profile of the firm stood moderate marked by low net worth, low gearing and moderate debt protection metrics. The tangible net worth increased and stood at Rs.4.43 crore as on March 31, 2020 as against Rs.3.78 crore as on March 31, 2019 on account of accretion of profits to reserves. The total debt of the firm stood at Rs.3.82 crore, which includes Rs.1.10 crore of long term debt, Rs.0.02 crore of unsecured loans and Rs.2.70 crore of short term debt as on March 31, 2020. The gearing (debt-equity) stood low at 0.86 times as on March 31, 2020 as compared to 1.31 times as on March 31, 2019. Interest Coverage Ratio stood at 2.70 times for FY2020 as against 2.81 times for FY2019. Debt Service Coverage Ratio (DSCR) stood at 1.05 times in FY2020 as against 1.15 times in FY2019. Total outside Liabilities/Total Net Worth (TOL/TNW) stood moderate at 1.66 times as on March 31, 2020 as against 1.78 times on March 31, 2019. Net Cash Accruals to Total Debt (NCA/TD) also stood moderate at 0.12 times for FY2020 as against 0.11 times for FY2019.

Acuite believes that the financial risk profile of the firm is expected to remain at the same level over the medium term.

• Risk of capital withdrawal

SC is exposed to the risk of capital withdrawal considering its partnership constitution. Any significant withdrawal from the partner's capital will have a negative bearing on the financial risk profile of the firm.

Rating Sensitivities

- Deterioration in profitability.
- Improving the financial risk profile.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity Position: Stretched

The firm has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.40- Rs.0.50 crore during the last three years through 2018-20, while its maturing debt obligations were Rs.0.43 crore over the same period. The firm's working capital operation is efficient marked by Gross Current Asset (GCA) of 63 days in FY2020 as against 51 days in FY2019. The firm maintains an unencumbered cash and bank balances of Rs.0.05 crore as on March 31, 2020. The current ratio of the firm stood at 1.41 times as on March 31, 2020. The average bank limit utilization remained fully utilized for the past trailing 6 months ended March 2021.

Outlook: Stable

Acuite believes that the firm will continue to maintain a 'Stable' outlook over near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the firm achieves higher than expected growth in revenues and improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	38.17	45.00
PAT	Rs. Cr.	0.29	0.30
PAT Margin	(%)	0.75	0.66
Total Debt/Tangible Net Worth	Times	0.86	1.31
PBDIT/Interest	Times	2.70	2.81

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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Feb-2020	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)
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)
	Cash Credit	Long Term	3.70	ACUITE B+/Stable (Upgraded)
	Proposed Bank Facility	Long Term	0.70	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	Oct-2015	11.05	Oct-2011	1.52	ACUITE BB-/ Stable (Upgraded from ACUITE B+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.70	ACUITE BB-/ Stable (Upgraded from ACUITE B+/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.18	ACUITE BB-/ Stable (Upgraded from ACUITE B+/Stable)

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About Acuité Ratings & Research:

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