

Press Release

Siddhi Industries Limited

March 20, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 76.90 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 76.90 crore bank facilities of Siddhi Industries Limited (SIL). The outlook is '**Stable**'.

SIL, based at Ahmedabad, was incorporated in 2011. The company is engaged in manufacturing of cotton yarn of 30s, 32s and 40s counts and commenced its operations from July 2017. The company has established a cotton spinning unit with 24,480 spindles. The company is promoted by Mr. Markand Parikh and his family members.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SIL to arrive at this rating.

Key Rating Drivers

Strengths

• Improving scale of operations

The company commenced its commercial operations from July 2017 and has booked operating income of Rs.69.60 crore in FY2018. The company has booked operating revenue of Rs.93.87 crore for nine months ending December 2018 and is operating at optimal capacity utilisation level. Further, the company has established its market for their products in Gujarat, Rajasthan, Maharashtra and Haryana. Acuité believes that growing scale of operations and improving revenues will help the company to maintain moderate financial risk profile over the medium term.

• Proximity to cotton growing areas

The installed manufacturing unit is located at cotton growing belt of Gujarat State. Gujarat is one of the major producers of raw cotton with 50 percent of the total production from this state. Thus, it ensures easy availability of raw material. Further, there are large numbers of ginning mills operating in the area from whom the required quantity of ginning cotton is being purchased. The company sells to traders in the yarn segment.

Weaknesses

• Moderate financial risk profile

The moderate financial risk profile is marked by moderate net worth, gearing and debt protection metrics. The net worth stood at Rs.34.98 crore as on 31 March, 2018 as against Rs.38.24 crore as on 31 March, 2017. The decrease in net worth is due to net losses incurred of Rs.5.99 crore in FY2018. The gearing stood at 2.40 times as on 31 March, 2018 as compare to 0.95 times as on 31 March, 2017 due to increase in long term debt. The debt protection metrics stood moderate marked by interest coverage ratio of 1.85 times as on 31 March, 2018. The DSCR stood low at 0.42 times as on 31 March, 2018.

• Susceptibility of margins to raw material price fluctuation

The operating margins of the company depend on prices of raw material i.e. raw cotton which is highly volatile in nature. The prices of cotton depends upon factors including area under production, yield for the year, international demand supply scenario, export quota decided by government and

inventory carry forward of last year which exposes the textile players to price volatility risk. Further, cotton being a seasonal crop is dependent upon the vagaries of monsoon.

Liquidity Position:

The liquidity of the company is slightly stretched due to initial stage of operations. The current ratio stood low at 1.33 times in FY2018. The repayment obligations of the company stood at Rs.5.36 crore in FY2018 which was managed by infusion of unsecured loans from promoters. The gross current asset days stood moderate at 90 in FY2018 and working capital facilities are utilised on an average at 30.00 percent in last six months ending 31 December, 2018. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of improving scale of operations.

Outlook: Stable

Acuite believes that SIL will continue to maintain 'Stable' outlook over the medium term. The outlook may be revised to 'Positive' if the company reports substantial increase in operating revenues while sustaining its margins and cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital cycle leading to deterioration of its financial risk profile and liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	69.60	0.02	-
EBITDA	Rs. Cr.	12.06	0.01	(0.00)
PAT	Rs. Cr.	(5.99)	0.18	(0.05)
EBITDA Margin	(%)	17.33	40.12	-
PAT Margin	(%)	(8.61)	795.62	-
ROCE	(%)	11.66	0.40	(0.21)
Total Debt/Tangible Net Worth	Times	2.40	0.95	45.45
PBDIT/Interest	Times	1.85	295.18	-
Total Debt/PBDIT	Times	5.13	138.96	-
Gross Current Assets (Days)	Days	90	-	-

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
21-Mar-2018	Term Loan	Long Term	31.95	ACUITE BB / Stable (Upgraded)
	Term Loan	Long Term	25.95	ACUITE BB / Stable (Upgraded)
	Cash Credit	Long Term	6.60	ACUITE BB / Stable (Upgraded)
	Cash Credit	Long Term	4.40	ACUITE BB / Stable (Upgraded)
	Bank Guarantee	Short Term	2.75	ACUITE A4+

				(Upgraded)
	Bank Guarantee	Short Term	1.75	ACUITE A4+ (Upgraded)
	Proposed Long Term Loan	Long Term	3.50	ACUITE BB / Stable (Upgraded)
30-Dec-2016	Term Loan	Long Term	35.00	ACUITE B+ / Stable (Assigned)
	Cash Credit	Long Term	6.60	ACUITE B+ / Stable (Assigned)
	Term Loan	Long Term	28.50	ACUITE B+ / Stable (Assigned)
	Cash Credit	Long Term	4.40	ACUITE B+ / Stable (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A4 (Assigned)
	Proposed Working Capital Demand Loan	Short Term	0.40	ACUITE A4 (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 loans	Not Applicable	Not Applicable	Not Applicable	28.72	ACUITE BB / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.60	ACUITE BB / Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE A4+ (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	2.75	ACUITE A4+ (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	24.03	ACUITE BB / Stable (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	9.05	ACUITE BB / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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