

Press Release

Siddhi Industries Limited

November 29, 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

Acuite 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**) on the Rs. 76.90 crore bank facilities of Siddhi Industries Limited(SIL). The outlook is '**Stable**'.

Siddhi Industries Limited (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 is promoted by Mr. Markand Parikh and his family members. The company has established a cotton spinning unit at Ahmedabad consist of 24,480 spindles with installed capacity to manufacture 5,796 MTPA of 30s.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and Improving scale of operations**

The key promoter Mr. Markand Parikh possess over four decades of in various industry. The extensive experience of the promoter has helped the company in establishing relationship with clients and suppliers. The company commenced its commercial operations from July 2017 and registered operating income of Rs.69.60 crore in FY2018 in first six months of operations. The company has booked operating revenue of Rs.130.31 crore for FY2019 registering an 87.23 percent YoY growth at optimal capacity utilization level. Further, the company has established its market for their products in Gujarat, Rajasthan, Maharashtra and Haryana. Acuite 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. 35.97 crore as on 31 March, 2019 as against Rs. 34.98 crore as on 31 March, 2018. The net worth includes Rs.5.21 crores of unsecured loans subordinated to bank facilities. The gearing stood at 2.25 times as on 31 March, 2019 as against 2.40 times as on 31 March, 2018 due to decrease in long term debt. The debt protection metrics stood moderate marked by interest coverage ratio of 2.03 times as on 31 March, 2019 and 1.97 times as on 31 March 2018. The DSCR stood low at 1.13 times as on 31 March, 2019.

• 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: Stretched

The liquidity of the company is slightly stretched due to higher repayment obligations and nascent scale of operations. The net cash accruals stood at Rs. 7.12 crores as against repayment obligation of Rs. 8.23 crores for FY2019. The rest is managed through unsecured loans infusion from promoters. The current ratio stood low at 1.39 times in FY2019. The gross current asset days stood comfortable at 77 in FY2019 and working capital facilities are utilised on an average at 20.00 percent in last six months ending 31 September, 2019. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of improving scale of operations.

Rating Sensitivities

- Improving scale of operations
- Comfortable working capital cycle
- Stretched liquidity profile due to nascent 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	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	130.31	69.60	0.02
EBITDA	Rs. Cr.	17.26	12.87	0.01
PAT	Rs. Cr.	0.99	(5.19)	0.18
EBITDA Margin	(%)	13.24	18.49	40.12
PAT Margin	(%)	0.76	(7.45)	795.62
ROCE	(%)	9.00	9.54	0.40
Total Debt/Tangible Net Worth	Times	2.25	2.40	0.95
PBDIT/Interest	Times	2.03	1.97	295.18
Total Debt/PBDIT	Times	4.64	6.43	138.96
Gross Current Assets (Days)	Days	77	121	-

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

Not Applicable

Any other information

None

Any Material Covenants

- Debt/EBITDA below 4.80 times

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.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
20-Mar-2019	Term loans	Long Term	28.72	ACUITE BB / Stable (Reaffirmed)
	Cash Credit	Long Term	6.60	ACUITE BB / Stable (Reaffirmed)
	Bank guarantee	Short Term	1.75	ACUITE A4+ (Reaffirmed)
	Bank guarantee	Short Term	2.75	ACUITE A4+ (Reaffirmed)
	Term loans	Long Term	24.03	ACUITE BB / Stable (Reaffirmed)
	Proposed Facility	Long Term	9.05	ACUITE BB / Stable (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BB / Stable (Reaffirmed)
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	27.14	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	1.00	ACUITE A4+ (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	21.35	ACUITE BB / Stable (Reaffirmed)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	15.41	ACUITE BB / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.40	ACUITE BB / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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