

Press Release

Siddhi Industries Limited

January 27, 2021

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 54.77 Cr. (Reduce from 76.90)
Long Term Rating	ACUITE BB/Outlook: Stable (Reaffirmed and Assigned)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 45.05 crore bank facilities of Siddhi Industries Limited (SIL). Also, Acuite has assigned the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.9.72 cr. bank facility of 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 an installed capacity to manufacture 5,796 MTPA.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management**

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 its clients and suppliers. The company commenced its commercial operations from July 2017 and currently operating at optimal capacity utilization level. The Operating income of the company stood declined at Rs. 126.02 crores in FY2020 as against Rs. 130.31 crores in FY2019. The company has achieved revenue of Rs. 67.75 crores till November 2020 (Provisional). The decline is due to impact of pandemic. Further, the company has established its market for their products in Gujarat, Rajasthan, Maharashtra and Haryana. Acuite believes that growing scale of operations 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.

- Efficient working capital management**

The working capital cycle of SIL has remained comfortable marked by Gross Current Assets (GCA) of 87 days in FY2020 and 77 days in FY2019. The GCA days is marked by moderate inventory holding in FY2020 over FY2019. The receivables not there as company takes full advance for every sale. The inventory holding period stood moderate at 76 days in FY2020 and FY2019. The average bank limit utilisation stood low for the last six months ended November, 2020.

Weaknesses

• Moderate Financial risk profile

The financial risk profile of SIL have remained moderate marked by net worth of Rs. 35.78 crore as on 31 March, 2020 as against Rs. 35.97 crores as on 31 March, 2019. The gearing (debt/equity) stood moderate at 2.12 times as on 31 March, 2020 as against 2.25 times as on 31 March, 2019. The total debt of Rs. 75.86 crore outstanding as on 31 March, 2020 comprises long term loan from bank of Rs.38.84 crore, unsecured loans of Rs 26.76 crores and Rs. 10.77 crore as a working capital borrowing from the bank. The moderate profitability coupled with high gearing levels have resulted in moderate debt protection metrics with interest coverage of 2.45 times as on March 31, 2020 as against 2.03 times as on March 31, 2019. NCA/TD stood at 0.08 times as on March 31, 2020 as against 0.09 times as on March 31, 2019. TOL/TNW ratio remained high at 2.50 times as on March 31, 2020 as against 2.58 time as on March 31, 2019. DSCR stood at 0.84 times as on March 31, 2020 as against 1.13 times as on March 31, 2019. In FY2020, Net cash accruals have declined stood at Rs. 6.18 crore (PY: Rs. 7.12) against debt repayment obligation of Rs. 8.19 crore.

• Highly competitive and fragmented industry marked by 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: Adequate

SIL has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.6.10 to Rs.7.12 crore during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs.5.36 – 8.25 crore over the same period. The cash accruals of the company are estimated to remain around Rs.6.50–8.80 crore during 2021-23, while its repayment obligations are expected to be Rs.5.50-8.50 crore over the same period. The cash credit limit of remains utilized low for the last six months ended November, 2020. The company maintains unencumbered cash and bank balances of Rs. 0.14 crore as on March 31, 2020. The current ratio of the company stood moderate at 1.31 times as on March 31, 2020.

Rating Sensitivities

- Sustaining exiting scale of operations and margins
- Improvement in overall financial risk profile and liquidity profile
- Elongation in working capital cycle

Outlook: Stable

Acuite believes that SIL will continue to maintain 'Stable' outlook over the medium term on back of experienced promoters. The outlook may be revised to 'Positive' if the company reports substantial increase in operating revenues while sustaining its margins and improving liquidity. 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	126.02	130.31
PAT	Rs. Cr.	(0.10)	0.99
PAT Margin	(%)	(0.08)	0.76
Total Debt/Tangible Net Worth	Times	2.12	2.25
PBDIT/Interest	Times	2.45	2.03

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

None

Any other information

None

Any Material Covenants

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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
29-Nov-2019	Term loans	Long Term	27.14	ACUITE BB / Stable (Reaffirmed)
	Cash Credit	Long Term	6.60	ACUITE BB / Stable (Reaffirmed)
	Bank guarantee	Short Term	1.00	ACUITE A4+ (Reaffirmed)
	Bank guarantee	Short Term	1.00	ACUITE A4+ (Reaffirmed)
	Term loans	Long Term	21.35	ACUITE BB / Stable (Reaffirmed)
	Proposed Facility	Long Term	15.41	ACUITE BB / Stable (Reaffirmed)
	Cash Credit	Long Term	4.40	ACUITE BB / Stable (Reaffirmed)
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	Amount (Rs. Cr.)	Ratings/Outlook
Term Loan	Nov 2017	Not Applicable	March 2025	18.69	ACUITE BB/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.60	ACUITE BB/Stable (Reaffirmed)
Term Loan	Nov 2017	Not Applicable	May 2024	13.36	ACUITE BB/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.40	ACUITE BB/Stable (Reaffirmed)
Working Capital Term Loan	Sept 2020	Not Applicable	Nov 2024	5.72	ACUITE BB/Stable (Assigned)
Working Capital Term Loan	Sept 2020	Not Applicable	Nov 2024	4.00	ACUITE BB/Stable (Assigned)
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)

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