

Press Release

Shivshakti Cotex

July 05, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 9.70 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA B plus**) on the Rs. 9.70 crore bank facilities of Shivshakti Cotex. The outlook is '**Stable**'.

Shivshakti Cotex (SC) established in 2013 was promoted by Mr. Jayeshkumar Patel, Mr. Dilipkumar Patel amongst others. The firm is engaged in the ginning and pressing of cotton bales and also sells cotton seeds. The manufacturing facility is located at Kadi, District Mehsana. SC has 30 ginning machines and 1 pressing machine with capacity to produce 6000 bales of cotton.

Key Rating Drivers

Strengths

- **Experienced management**

SC, established in 2013, is a Gujarat-based partnership firm. The promoters possess more than two decades of experience in cotton ginning. .

- **Favourable location**

The firm is located at Kadi, Gujarat - one of the largest textile manufacturing and processing hub that provides easy availability of key raw materials and proximity to a large customer base.

- **Comfortable working capital management**

SC has comfortable working capital cycle marked by GCA (gross current assets) of 53 days for FY2016 as against GCA of 55 days for FY2015. This is mainly on account of inventory days of 10 and debtor days of 43 for FY2016. Further, the average utilisation of working capital limit stood at ~80.00 percent in the last six months ended November 2016 to April 2017.

Weaknesses

- **Uneven trends in revenue**

The firm has reported operating income of Rs.71.35 crore for FY2016 as against Rs.48.91 crore in FY2015 and Rs.68.18 crore in FY2014. Further, for FY2017 (Provisional), the firm registered operating income of ~ Rs.69.00 crore. The uneven revenue trend is on account of seasonality of cotton crop and subsequent sales realisations.

- **Low profitability and net cash accruals**

SC has low profitability marked by operating (EBITDA) margin of 2.03 percent and Profit after tax (PAT) margin of 0.04 percent for FY2016 as against operating margin of 3.19 percent and PAT margin of 0.04 percent for FY2015. The low profitability is due to relatively low value additive business coupled with stiff competition. SC has low net cash accruals of Rs. 0.50 crore in FY2016 as against term debt obligation of Rs. 0.46 crore every year. Going ahead, the net cash accruals are expected to remain low due to low profitability.

• Average financial risk profile

The firm has average financial risk profile marked by gearing (debt-to-equity ratio) of 0.83 times as on 31 March, 2016 against 1.26 times as on 31 March 2015. The total debt mainly comprises working capital borrowings. The ICR (Interest coverage ratio) stood at 1.53 times for FY2016 against 1.51 times for FY2015. Further, the tangible net worth stood at Rs.7.52 crore as on 31 March, 2016 (The tangible net worth includes subordinated quasi equity of Rs.5.34 crore).

• Highly fragmented cotton ginning industry

SC operates in a highly fragmented industry with large numbers of organised and unorganised players. The value addition is limited in the cotton ginning process resulting in the firm operating at thin profitability.

• Volatility in raw material prices

Cotton prices are highly regulated by the government through MSP (Minimum Support Price). However, the purchase and selling price depends on the prevailing demand-supply situation restricting bargaining power with suppliers and customers. Any adverse movement of cotton prices further impacts profitability.

Analytical Approach

SMERA has considered the standalone financial and business risk profile of Shivshakti Cotex to arrive at the rating.

Outlook: Stable

SMERA believes that the firm will maintain a stable outlook and continue to benefit over the medium term owing to its established presence in the ginning industry and experienced management. The outlook may be revised to 'Positive' if the scale of operations increases substantially while improving its operating profitability and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in profitability and revenue or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

For FY2015-16, the firm reported profit after tax (PAT) of Rs.0.03 crore on operating income of Rs.71.32 crore, as compared with net profit of Rs.0.02 crore on operating income of Rs.48.91 crore in FY2014-15. The tangible net worth stood at Rs.7.52 crore as on 31 March, 2016 against Rs.5.72 crore a year earlier. (Tangible net worth includes subordinated quasi equity of Rs.5.32 crore for FY2016 and Rs.3.87 crore for FY2015.)

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.70	SMERA B+ / Stable

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