

Press Release

Sharwin Cottex

07 May, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 13.86 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERABB-**' (read as **SMERA double Bminus**) on the Rs.13.86 crore bank facilities of Sharwin Cottex. The outlook is '**Stable**'.

Sharwin Cottex (SC) is a partnership concern established by Mr. Soham Pulin Purohit and Mrs. Manisha Pulin Purohit in 2016. The Gujarat-based firm is engaged in cotton ginning, extraction of cotton seed oil and cakes. SC has 36 double rollers and 12 extruders. The installed capacity stands at 24,192 MTPA for cotton seed crushing and 45,619 MTPA for raw cotton processing.

Key Rating Drivers

Strengths

Experienced partners

The partners have been in the cotton ginning business for more than a decade through a group concern.

Locational advantage and proximity to raw materials

The manufacturing facility is located at Mehsana district, Gujarat, which is one of the major textile hubs in India. The firm benefits from the proximity to raw material, labour, water and power. Further, cotton is an agro-commodity. With SC enjoying the status of SSI, it is eligible for government subsidies.

Weaknesses

Risk of partnership constitution

The firm is exposed to risk of capital withdrawal considering its partnership constitution.

Fragmented industry and low value addition

The firm operates in a highly fragmented industry with a large number of players resulting in low bargaining power with customers and suppliers. Further, the operations entail limited value addition, thereby capping margins and profitability.

Volatility in raw material prices, unfavourable government regulations

Cotton is the primary raw material used by the firm which is procured at MSP (Minimum Support Price) stipulated by the government. However, the selling price of the output depends on the prevailing demand supply situation, thereby impacting margins and profitability.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profile of the firm.

Outlook: Stable

SMERA believes that SC will maintain a 'Stable' outlook in the medium term owing to its

experienced management. The outlook may be revised to 'Positive' in case of more than expected revenue and net cash accruals while improving the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenues and net cash accruals leading to a below average financial risk profile, particularly liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	67.61	NA	NA
EBITDA	Rs. Cr.	1.14	NA	NA
PAT	Rs. Cr.	0.07	NA	NA
EBITDA Margin	(%)	1.68	NA	NA
PAT Margin	(%)	0.10	NA	NA
ROCE	(%)	4.48	NA	NA
Total Debt/Tangible Net Worth	Times	1.36	NA	NA
PBDIT/Interest	Times	2.38	NA	NA
Total Debt/PBDIT	Times	12.30	NA	NA
Gross Current Assets (Days)	Days	95	NA	NA

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

CARE in its Rationale dated February 09, 2018 has stated 'CARE has been seeking information from Sharwin Cottex to monitor the rating(s) vide e-mail communications/ letters and numerous phone calls. However, despite our repeated requests, the entity has not provided the requisite information for monitoring the ratings. In the absence of minimum information required for the purpose of rating, CARE is unable to express opinion on the rating. In line with the extant SEBI guidelines CARE's rating on Sharwin Cottex bank facilities will now be denoted as CARE B+; ISSUER NOT COOPERATING.'

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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BB- / Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	3.86	SMERA BB- / Stable (Assigned)

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ABOUT SMERA

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