

Press Release

Sharwin Cottex

June 28, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 21.36 Cr. (Enhanced from Rs.13.86 cr.)
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs. 21.36 crore bank facilities of Sharwin Cottex (SC). 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.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SC to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced partners' and improving scale of operations**

The partners have experience in the cotton ginning business of more than a decade through a group concern. The operations of the firm have improved significantly which can be observed through increase in operating income to Rs. 193.30 crore in FY2019 as compared to Rs.81.06 crore in FY2018 and Rs.67.61 crore in FY2017. The revenue is growing at compounded annual growth rate of 41.93 percent since 2017. The improvement is seen due to increase in capacity utilisation levels and adding of new customers.

- **Locational advantage and proximity to raw materials**

The manufacturing facility is located at Mehsana district of 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.

- **Comfortable working capital cycle**

The working capital cycle of the firm stood comfortable marked by Gross Current asset (GCA) of 57 days in FY2019 and 58 days in FY2018. The receivable days improved to 33 days in FY2019 as compared to 43 days in FY2018. However, the working capital limit utilisation stood high at 96.57 percent in last six months ending May 2019.

Weaknesses

- **Average financial risk profile**

The financial risk profile is average marked by tangible net worth of Rs. 18.37 crore as on 31 March, 2019 as against Rs. 13.44 crore as on 31 March, 2018. The net worth includes unsecured loans of Rs. 3.59 crore as on 31 March, 2019 and Rs. 5.07 crore as on 31 March, 2018. The gearing ratio increased to 1.13 times as on 31 March, 2019 as compared to 0.67 times as on 31 March, 2018. The total debt of Rs. 20.81 crore consists of term loan of Rs. 2.97 crore and working capital limit of Rs.17.84 crore as on 31 March, 2019. The ICR stood at 1.86 times and DSCR stood at 1.14 times as on 31 March, 2019, from 2.24 times and 1.48 times respectively as on 31 March, 2018. Debt/EBITDA ratio stood high at 7.63 times in FY2019 which has significantly increased from 3.55 times in FY2018. Acuite believes that, going ahead, improvement in margins and debt protection metrics will be key rating sensitivity factor.

• **Decline in margins and volatility in raw material prices**

The operating and PAT margins of the firm have declined to 1.40 percent and 0.02 percent in FY2019 as against 3.09 percent and 0.04 percent in FY2018. The decline is due to fluctuation in raw material, discounts provided to customers and impact on prices due to competition. Further, 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.

• **Fragmented industry, low value addition and risk of capital withdrawal**

The firm operates in a highly fragmented industry with a large number of players resulting in low bargaining power with customers and suppliers. The operations entail limited value addition, thereby capping margins and profitability. The firm is exposed to risk of capital withdrawal considering its partnership constitution.

Liquidity Position:

Liquidity profile is adequate marked by cash accruals of Rs. 1.26 crore as against repayment obligation of Rs.0.98 crore in FY2019. It is expected to generate cash accruals in the range of Rs.1.50 - 2.00 crore over the medium term which gives moderate cushion for the incremental working capital requirements and the liquidity. The working capital utilisation stood about 96.57 per cent on an average for the last six months through May 2019. The current ratio stood at 1.58 times for FY2019. Acuite believes that the liquidity profile continues to remain adequate supported by moderate accruals.

Outlook: Stable

Acuite believes that SC will maintain a 'Stable' outlook in the medium term owing to its experienced partners. 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 stretch in working capital cycle leading to deterioration in financial risk profile of the firm.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	193.30	81.06	67.61
EBITDA	Rs. Cr.	2.71	2.51	1.14
PAT	Rs. Cr.	0.04	0.03	0.07
EBITDA Margin	(%)	1.40	3.09	1.68
PAT Margin	(%)	0.02	0.04	0.10
ROCE	(%)	4.90	4.82	4.48
Total Debt/Tangible Net Worth	Times	1.13	0.67	1.36
PBDIT/Interest	Times	1.86	2.24	2.38
Total Debt/PBDIT	Times	7.63	3.55	12.30
Gross Current Assets (Days)	Days	57	58	95

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>
- 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
07-May-2018	Cash Credit	Long Term	10.00	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	3.86	ACUITE BB- / Stable (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00 (enhanced from 10.00)	ACUITE BB- / Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	3.36	ACUITE BB- / Stable (Reaffirmed)

Contacts

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About Acuite Ratings & Research:

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