

Press Release

Sharwin Cottex

June 22, 2021



Rating Downgraded

Total Bank Facilities Rated*	Rs.28.36 crore#
Long Term Rating	ACUITE D (Downgraded from ACUITE BB- Stable)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE D (read as ACUITE D)**' from '**ACUITE BB- (read as ACUITE double B minus)**' on the Rs.28.36 crore bank facilities of Sharwin Cottex.

The rating downgrade is on account of delays in servicing of debt obligations.

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

Analytical Approach

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

Key Rating Driver

Strengths

Experienced partner's and improving the scale of operations

The partners have experience in the cotton ginning business of more than a decade through a group concern. The firm is also supported by the second line of management. The revenue growing at a compounded annual growth rate of 38.64 percent since 2017. The operating income has increased to Rs. 249.80 crores in FY2020 as against Rs. 193.30 crore in FY2019 and Rs.81.06 crores in FY2018 and Rs.67.61 crore in FY2017. The improvement is seen due to an increase in capacity utilization levels and adding of new customers. Acuite believes the firm to benefit from the experience of the partners and longstanding relationship with its customer, suppliers.

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) days of 58 in FY2020 as against 57 days in FY2019 and 58 days in FY2018. The receivable days stood at 40 days in FY2020 as against 33 days in FY2019 and 43 days in FY2018. However, the working capital limit utilisation stood high at 97.00 percent in the last six months ending in August 2020. Acuite believes the ability of the firm to sustain its working capital cycle, will remain a key deliverable in a challenging environment.

Weaknesses

Delays in debt servicing

There are persistent delays in the account and is classified as NPA. This is mainly due the stretched liquidity and impact of lockdown due to Covid.

Moderate financial risk profile

The financial risk profile is moderate, marked by tangible net worth of Rs. 19.88 crore as on 31 March, 2020 as against Rs. 18.37 crore as on 31 March, 2019 and Rs. 11.96 crore as on 31 March, 2018. The net worth includes unsecured loans of Rs. 3.75 crore as on 31 March, 2020 and Rs. 3.59 crore as on 31 March, 2019. The gearing ratio increased to 1.37 times as on 31 March, 2020 as compared to 1.13 times as on 31 March, 2019. The total debt of Rs 27.33 crore consists of a term loan of Rs. 2.38 crore and working capital limit of Rs. 24.95 crore as on 31 March, 2020. The ICR stood at 1.51 times and DSCR at 1.19 times as on 31 March, 2020, from 1.86 times and 1.33 times respectively as on 31 March, 2019. The Debt/EBITDA ratio stood high at 7.80 times in FY2020, which has increased from 7.63 times in FY2019.

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 the risk of capital withdrawal considering its partnership constitution.

Rating Sensitivity

- Timely repayment of the debt obligations

Material Covenants

None

Liquidity Position: Poor

The company has poor liquidity marked by the ongoing delays in the account. Due to the ongoing pandemic situation the liquidity of the company has impacted severely. Acuite believes the liquidity position of the company will continue to remain poor over the medium.

Outlook: Not Applicable

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	249.80	193.30
PAT	Rs. Cr.	0.12	0.04
PAT Margin	(%)	0.05	0.02
Total Debt/Tangible Net Worth	Times	1.37	1.13
PBDIT/Interest	Times	1.51	1.86

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

Not Applicable

Any other information

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
21-Sept-2020	Cash Credit	Long Term	25.00	ACUITE BB-/ Stable (Reaffirmed)
	Term Loan	Long Term	2.36	ACUITE BB-/ Stable (Reaffirmed)
	Working Capital term Loan	Long Term	1.00	ACUITE BB-/ Stable (Assigned)
28-Jun-2019	Term Loan	Long Term	3.36	ACUITE BB-/ Stable (Reaffirmed)
	Cash Credit	Long Term	18.00	ACUITE BB-/ Stable (Reaffirmed)
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	25.00	ACUITE D (Downgraded from ACUITE BB-/ Stable)
Term Loan	Not Available	Not Applicable	Not Available	2.36	ACUITE D (Downgraded from ACUITE BB-/Stable)
Working Capital term Loan	July- 2020	Not Applicable	June- 2022	1.00	ACUITE D (Downgraded from ACUITE BB-/ Stable)

Contacts

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About Acuite Ratings & Research:

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