Press Release

Shreeji Cottab Limited

May 03, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 12.16 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' **(read as ACUITE double B plus)** to the Rs. 12.16 crore bank facilities of Shreeji Cottab Limited (SCL). The outlook is **'Stable'**.

Rajasthan based, SCL was incorporated in 2010 by Mr. Kuldeep Singh (Managing Director). The company is engaged in trading and manufacturing of cotton and polyester yarn. Currently, the Directors are Mr. Pankaj Bhatia, Mr. Kuldeep Singh and Mrs. Sonia Uthra. The manufacturing unit is located in Alwar (Rajasthan) with an installed capacity of 4000 MTPA with ~60 percent utilisation.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SCL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

  The company was incorporated in 2010, thus has an operational track record of over a decade in cotton industry. The Directors have an experience of over two decades in the same line of business. This has helped the company maintain long standing relations with customers and suppliers. Acuité believes that SCL will sustain its existing business profile on the back of experienced management.

- **Improving scale of operations**

  Operating income of SCL has grown at a CAGR of 10 percent for the period FY2016-FY2018. The revenues increased to Rs. 233.95 crore in FY2018 as against Rs.154.67 crore in FY2017. This is mainly due to increased installed capacity of manufacturing unit by 1000 MTPA in FY2018 and focus on manufacturing business. Further, revenues registered in FY2019 (9M) are Rs.185.42 crore (Provisional). Acuité believes that the scale of operations will grow over the near to medium term on account of increasing orders from existing customers.

- **Efficiently managed working capital operations**

  The company continues to efficiently manage its working capital requirement with Gross Current Asset (GCA) of 36 days for FY2018 as against 58 days for FY2017. The debtors stood at 21 days for FY2018 as against 39 days for FY2017. Inventory level stood at 7 days for FY2018 as against 9 days for FY2017. However, the bank limit utilisation stood at 94.81 percent for the past six months ending February 2019.

- **Moderate financial risk profile**

  The financial risk profile stood moderate marked by moderate net worth, debt protection metrics and coverage indicators. The net worth of SCL stood at Rs.14.90 crore (includes quasi equity of Rs.2.71 crore) as on 31 March, 2018 as against Rs.12.22 crore (includes Rs.2.13 crore of quasi equity) as on 31 March, 2017. The gearing (debt-equity) stood at 0.85 times as on 31 March, 2018 as against 1.15 times as on 31 March, 2017. The total debt of Rs.12.71 crore as on 31 March, 2018 mainly comprises Rs.9.71 crore of working capital borrowings and Rs. 3.00 crore of long term debt. The coverage indicators are moderate marked by Interest Coverage Ratio (ICR) at 3.18 times for FY2018 as against 2.35 times for FY2017. NCA/TD (Net Cash Accruals to Total Debt) stood at 0.22 times in FY2018 and 0.15 times in FY2017. Debt to EBITDA stood at 2.53 times in FY2018 as against 3.41 times in FY2017. Acuité believes that the financial risk profile of the company is expected to remain moderate backed by moderate net cash accruals.

Weaknesses

- **Low profitability margins**
The company is engaged in the trading and manufacturing of cotton and polyester yarn. The margins of the company are thin due to the trading nature of business. The operating margin decreased to 2.07 per cent in FY2018 from 2.44 per cent in FY2017. However, the margins are increasing due to increase in manufacturing business in the current year. The operating margins stood at 2.74 percent for the period April 2018 to December 2018 (Provisional). The PAT margin stood at 0.50 percent in FY2018 as against 0.39 percent in FY2017.

- **Presence in highly fragmented and competitive nature of industry**
The company operates in a highly competitive and fragmented cotton industry with several organised and unorganised players.

- **Susceptibility of margins to volatility in raw material prices**
SCL's margins are highly susceptible to changes in cotton prices and fibre. Price of cotton is stated by government through Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with the suppliers as well. Any adverse movement of cotton prices further impacts the operating performance of the company.

Outlook: Stable

Acuité believes that SCL will maintain a 'Stable' outlook over the medium term on the back of its experienced management. The outlook maybe revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

Liquidity Position

The company has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 2.85 crore for FY2018 while its maturing debt obligations were Rs. 1.05 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 3.50 crore to Rs. 5.50 crore during 2019-21 while its repayment obligation are estimated to be around Rs. 1.50 crore to Rs. 2.50 crore. The company's working capital operations are efficiently managed marked by gross current asset (GCA) days of 36 days for FY2018. The company maintains unencumbered cash and bank balances of Rs. 0.25 crore as on 31 March 2018. The current ratio stands at 1.03 times as on 31 March 2018. Acuite believes that the liquidity of the company is likely to remain moderate over the medium term on account of moderate cash accrual against no major debt repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	233.95	154.67	193.09
EBITDA	Rs. Cr.	4.84	3.78	2.12
PAT	Rs. Cr.	1.17	0.60	0.23
EBITDA Margin	(%)	2.07	2.44	1.10
PAT Margin	(%)	0.50	0.39	0.12
ROCE	(%)	12.39	11.28	16.29
Total Debt/Tangible Net Worth	Times	0.85	1.15	1.02
PBDIT/Interest	Times	3.18	2.35	1.92
Total Debt/PBDIT	Times	2.53	3.41	4.08
Gross Current Assets (Days)	Days	36	58	32

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

CRISIL, vide its press release dated March 23, 2018 had denoted the rating of Shreeji Cotfab Limited as 'CRISIL BB-/Stable/ A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information
None

Applicable Criteria

- Default Recognition-https://www.acuite.in/criteria-default.htm
- Trading Entities-https://www.acuite.in/view-rating-criteria-6.htm
- Manufacturing Entities-https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments-https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument
https://www.acuite.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	10.00	ACUITE BB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.16	ACUITE BB+ / Stable

**Sublimit of cash credit includes EPC/PCFC/FBP/EBP/EBR of Rs.2.00 crore.*

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About Acuité Ratings & Research:
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