

Press Release

Shyam Cotton Trading Company

March 24, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	9.50	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	9.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB- ' (read as ACUITE triple B Minus)**' on the Rs. 9.50 Cr bank facilities of the Shyam Cotton Trading Company (SCTC) (SCTC or Sri Salasar Balaji group). The outlook is '**Stable**'.

The rating draws the comfort from significant improvement in the Sri Salasar Balaji Group's operating performance over the last three years ended in FY2022. The Group is expected to report consistent growth in revenues and earnings in the medium term owing to the group's established presence, extensive experience of promoters and location-specific advantage to be present in proximity to the cotton growing areas of Mahabubnagar (Telangana). The Group's revenues have registered a healthy growth, aided by the promoters' extensive experience in the cotton trading and cotton yarn segments backed by the promoter's long industry experience, a diversified product portfolio across segments and the integrated nature of operations resulted in established customer and supplier base for repeated orders. The group reported 147% and 9% growth in revenue in FY2021 and FY2020, respectively; expects a consistent revenue growth of around 30% in FY2022. The ratings albeit is constrained by the working capital intensive nature of operations, intense competition in the industry and vulnerability of its margins to fluctuating raw material and yarn prices.

About Company

Shyam Cotton Trading Company (SCTC) is a proprietorship concern, established in 2003 by Ms. Manju Khetan. SCTC is based in Hyderabad (Telangana) engaged in trading of cotton.

About the Group

Sri Salasar Balaji Textiles Private Limited

Incorporated in November 2017, Sri Salasar Balaji Textiles Private Limited (SSBTPL) is engaged in manufacturing of cotton yarn. Mr. Dhiraj Kumar Khetan is the promoter of the company. The plant is located in Adilabad, Telangana with an installed capacity of 48,000 spindles. SSBTPL started commercial operations July, 2019.

Sri Salasar Balaji Agrotech Private Limited

Incorporated in 2003, Sri Salasar Balaji Agro Tech Private Limited (SSBATPL) is a Hyderabad-based company engaged in the business of FP Bales (full pressed bales) and cotton yarn. Mr. Dhiraj Kumar Khetan and his family members are the promoters of the company.

Analytical Approach

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has considered consolidated financials of Sri Salasar Balaji Agrotech Private Limited (SSBATPL), its wholly owned subsidiary - Sri Salasar Balaji Textiles Private Limited (SSBTPL) and Shyam Cotton Trading Company (SCTC), together referred to as the Sri Salasar Balaji Group. The consolidation is on account of strong operational, financial and managerial linkages. Extent of Consolidation: Full Consolidation

Key Rating Drivers

Strengths

Extensive experience of promoters and long operational track record of operations

Sri Salasar Balaji Textiles Private Limited (SSBTPL) belongs to Sri Salasar Balaji Group, which has presence in the cotton textile industry for more than three decades. Mr. Dhiraj (Managing director) is actively engaged in managing the day to day operations of the company along with adequate support from other family members who also have been associated with the cotton industry. The manufacturing facility of the company is strategically located in Mahboobnagar district, which is a hub for horticultural. Raw cotton being the major raw material is available abundantly in close proximity of the unit. Further, the promoters have long and established relationship with the farmers as well as traders which augurs well for the company. The promoters have established long relationships with various stakeholders across the value chain, aiding in repeat orders from key customers. Acuité believes that Group will continue to benefit from the extensive experience of its promoters, and established relationships with clients will improve its business risk profile over the medium term.

Improved Operating Performance; Likely to Continue in FY2022

The Group recorded steady growth in revenues over the past three years ending March 31, 2021 and is expected to continue in fiscal year 2022, supported by increasing volumes, adding new customers, and diversifying operations. This will be driven by a continued international demand and competitive pricing. Salasar Group's revenue grew at a CAGR of 63 % to Rs. 725.80 Cr during FY19-FY21. The group EBITDA margins had moderated to 3.48% in FY21 (FY20: 5.37%) on account of higher raw material costs. For, 10MFY2022, the Group has reported revenue over the FY21 revenue and expected to sustain its EBITDA margins at 4%-5% in the medium term, considering a likely moderation in raw material costs with improved realisations in cotton yarn segment. Acuité believes that Group's scale will improve over the medium and operating margins remaining stable.

Integrated operations supporting operating efficiency

The group has diversified its business line to the spinning business as part of SSBTPL has eventually integrated into a spinning unit should take advantage as operational synergies with other group companies. In addition, the group's proximity to the Telangana cotton belt leads to favourable access to raw materials and reduced transport costs. Acuité believes that integrated nature of operations and diversified product mix supports the operating performance of the company to an extent.

Moderate financial risk profile

Salasar Group's financial risk profile is moderate marked by modest net worth, high gearing (debt-to-equity), high total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. Salasar Group's net worth is moderate at Rs.43.42 Cr as on March 31, 2021 as compared to Rs.36.87 Cr as on March 31, 2020. Gearing stood high at 2.48 times as on March 31, 2021 against 2.46 times as on March 31, 2020. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 3.26 times as on March 31, 2021 as against 3.56 times as on March 31, 2020. Its debt protection metrics are moderate marked by its NCA/TD and interest coverage ratio of 0.11 times and 2.10 times in FY2021 vis-à-vis 0.06 times and 3.56 times in FY2020, respectively. Acuité believes that with moderate accruals and no significant debt-funded capex plans, the financial risk profile is expected to moderate over the medium term.

Weaknesses

Working capital intensive nature of operations

The group has working capital intensive nature of operations marked by moderate Gross Current Asset (GCA) of 57-119 days during last 3 years ending March 31, 2021. The Group had inventory and debtor levels of 8-47 days and 15-58 days over the last 3 years ending March 31, 2021. These are partially offset by its creditor days of 13-50 days as on March 31, 2021. The group usually purchases most of its cotton from Cotton Corporation of India (CCI) through open bidding process. Its working capital limits utilised at about 84 percent over the past six months ended January, 2021. Acuité believes that operations are likely to remain working capital intensive.

Highly competitive and fragmented industry

Cotton is a 'kharif crop', sowed in June and harvested in October. Therefore, the ginning activities also commence in October and last till March every year, making the business seasonal. Availability of cotton is highly dependent on monsoon. Cotton production, government interventions and fluctuations in global cotton output have resulted in sharp fluctuations in cotton prices in the past and impacted the operating margins of players. Sustenance of the operating margin amid the volatility in cotton price will remain a key sensitivity factor. Operating margins of Salasar Group have oscillated in the range of 3.19 -5.37 percent over FY2019-21. Cotton, which is the main raw material required for ginning, is a seasonal crop and production of the same is highly dependent upon monsoon. Thus, inadequate rainfall may affect the availability of raw cotton in adverse weather conditions. The cotton industry is highly competitive with multiple players coupled with low entry barriers resulting into intense competition from both the organised as well as unorganised players. Acuité believes that operating margins of the entire value chain - ginners and spinners continue to be exposed to the volatile raw material prices and impacts on profitability. Also, the low value-additive nature of the business results in thin profit margins for the group.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Significant improvement in scale of operations while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile.
- Any further deterioration in working capital management leading to deterioration in financials risk profile and liquidity

Material Covenants

None

Liquidity Position: Adequate

Salasar Group's liquidity position remains adequate as reflected in its adequate net cash accruals to its maturing debt obligations; albeit constrained by working capital intensive nature of operations. Salasar Group's has reported cash accruals of Rs.1.90 Cr to 12.20 Cr during last 3 years ended through FY2021 as against repayment obligations of about Rs.1.75 Cr to 8.50Cr during the same period. Its cash accruals are expected in the range of Rs.15-20 Cr over the medium term against repayment obligations of about Rs.8-12 Cr during the same period. Liquidity is constrained by its highly utilized working capital limits at about 84.25 per cent for the last six months through January 2022. The current ratio stood at 1.32 times and cash and bank balances stood at Rs.0.88 Cr as on March 31, 2021. Acuite believes that though cash accruals are adequate, however, managing the working capital intensive operations will remain a key rating sensitivity factor.

Outlook: Stable

Acuite believes that Sri Salasar Balaji group will continue to benefit over the medium term due to its "established market position and established relations with its customers. The outlook may be revised to "Positive", if the group demonstrates substantial and sustained growth in its revenues and/or operating margins from the current levels while maintaining / improving its capital structure through equity infusion. Conversely, the outlook may be revised to "Negative", if Group's generates lower-than-anticipated cash accruals , most likely as a result of sharp decline in operating margins, or further stretch in its working capital cycle, or larger-than expected debt-funded capex or any significant investments in group entities, or any significant withdrawal of capital thereby impacting its financial risk profile, particularly its liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	725.80	293.36
PAT	Rs. Cr.	5.77	0.50
PAT Margin	(%)	0.80	0.17
Total Debt/Tangible Net Worth	Times	2.48	2.46
PBDIT/Interest	Times	2.10	1.81

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

SCTC has not cooperated with CARE Ratings which has published its ratings as an issuer not co-operating vide release dated March 19,2021. The reason provided by CARE Ratings was non-furnishing of information for monitoring of ratings.

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
DBS Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE BBB- Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Bhavani sankar Oruganti Senior Analyst-Rating Operations Tel: 022-49294065 bhavanisankar.oruganti@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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