

Press Release

Shubham Industries

May 11, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (read as SMERA B plus) on the Rs. 10.00 crore bank facilities of SHUBHAM INDUSTRIES. The outlook is '**Stable**'.

Shubham Industries (SI), established in 2005, is a partnership concern promoted by Mr. Ramesh Bhai Patel and family. The firm is engaged in processing of raw cotton to produce cotton bales and cotton seed oil. The firm procures raw cotton from Gujarat, Maharashtra, Andhra Pradesh and Karnataka. Cotton bales are sold to spinning mills and to exporters in Gujarat, Tamil Nadu and other states. Cotton oil is sold to refineries located in Gujarat.

Key Rating Drivers

Strengths

- **Established track record and experienced management**

Shubham Industries established in 2005 has a long track record in cotton ginning and pressing industry. The firm is promoted by Mr. Ramesh Bhai Patel and family who have more than three decade of experience in cotton industry by virtue of their association with Vikas Cotton Industries and Jay laxmi Cotton. Owing to their experience, they have long standing relationship with their suppliers and buyers.

- **Location advantage**

Shubham Industries is located in Kadi, Gujarat considered as 'Cotton City'. The company benefits in terms of easy access to quality raw material and lower transportation cost due to its proximity to raw material suppliers.

Weaknesses

- **Low profitability and weak financial risk profile**

SI's operating margins remained weak with a net profit margin of 0.63 percent in FY2017 as against 0.61 percent in FY2016 because of low value-added operations and stiff competition. The margins were supported primarily by income of Rs 0.59 crore in FY2017 derived from other sources such as interest earned. The capital structure continued to remain leveraged with a gearing of 2.39 times as on March 31, 2017, because of higher working capital debt requirements causing total debt to increase from Rs. 4.67 crore in FY2016 to Rs. 8.9crore in FY2017. Low profitability and a high debt level resulted in weak debt protection metrics with interest coverage of 1.68 times and NCA/TD of 0.04 as on March 31, 2017.

- **Intense competition and fragmented industry**

The company faces stiff competition from other small and unorganised players in the industry, which limits its bargaining power with customers and suppliers, and hence, exerts pressure on its margins. Additionally the margins are also exposed to fluctuations in raw material (raw cotton) prices, which depend upon various factors like seasonality, climatic conditions, international demand and supply situations and export policy

Analytical Approach

SMERA has considered the standalone financial and business risk profile of the firm to arrive at the rating.

Outlook: Stable

SMERA believes that the firm will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the group registers healthy growth in revenue and/or sustainable improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue or further deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	41.47	33.11	41.14
EBITDA	Rs. Cr.	0.29	0.41	0.51
PAT	Rs. Cr.	0.26	0.20	0.18
EBITDA Margin	(%)	0.70	1.24	1.24
PAT Margin	(%)	0.63	0.61	0.44
ROCE	(%)	7.73	5.89	12.09
Total Debt/Tangible Net Worth	Times	2.39	1.53	1.75
PBDIT/Interest	Times	1.68	1.99	1.68
Total Debt/PBDIT	Times	10.03	7.60	9.05
Gross Current Assets (Days)	Days	115	76	79

Any other information

Not Applicable

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>
- Complexity Level Of Financial Instruments - <https://www.smera.in/criteria-complexity-levels.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA B+ / Stable

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