

Press Release

Shubham Industries

June 24, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned long-term rating of '**ACUITE B+** (**read as ACUITE B plus**) on the Rs. 10.00 crore bank facilities of **Shubham Industries (SI)**. The outlook is 'Stable'

The rating continues to reflect company's comfortable financial risk profile and experienced management. These rating strengths are partially offset by decline in revenue on account of lower production.

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 of Shankar 6 variety 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.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SI to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record and experienced management**

SI, 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 decades 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.

- **Moderate financial risk profile**

SI's financial risk profile remains moderate with modest net worth, comfortable gearing and moderate debt protection metrics. The net worth increased to Rs. 4.54 Crore in FY2019 (prov) as against Rs. 4.37 Crore in FY2018 supported by healthy net cash accruals. The gearing stood at 1.31 times in FY2019 (prov) as against 1.49 times in FY2018. The same is expected to remain range bound at current levels in absence of debt funded capex. The total outside liability against total net worth (TOL/TNW) remained comfortable at 1.37 times in FY2019 (prov) as against 1.60 times in the previous year. The debt protection metrics remained healthy with interest coverage ratio of 2.18 times in FY2019 (prov) as against 1.64 times in the previous year. The financial risk profile is expected to remain moderate in absence of any debt funded capex and sufficient liquidity profile.

Weaknesses

- **Decline in operating revenue and profitability**

SI's operating revenue has shown a de-growth of 34 percent in FY 2019, decline from Rs 55.17 crore in 2018 to Rs 36.72 crore in 2019 (prov), owing to lower production in absence of adequate

availability of raw material. The company's operating margins remained weak with a net profit margin of 0.27 percent in FY 2019(prov.) as against 0.90 percent in FY2018 because of decline in operations and stiff competition. The PAT margin remained at 0.70% in FY 2019 supported by non-operating income of Rs 0.55 Crore.

• 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.

Liquidity Profile:

SI has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.35 crore during FY2018-19 against no debt obligation. The cash credit limit in the company remains utilised at around 70 percent during the last 6-month period ended May, 2019. The company maintains unencumbered cash and bank balances of Rs.0.04 crore as on March 31, 2019. The current ratio of the company stands at 2.65 times as on March 31, 2019 (prov). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual sufficient and absence of long term debt obligation.

Outlook: Stable

Acuité believes that SI will maintain a 'Stable' outlook over the medium term owing to its promoters' extensive experience in the industry and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the company achieves more than envisaged sales and profitability while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the revenue and profitability declines further or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	36.72	55.17	41.47
EBITDA	Rs. Cr.	0.10	0.50	0.29
PAT	Rs. Cr.	0.26	0.28	0.26
EBITDA Margin	(%)	0.27	0.90	0.70
PAT Margin	(%)	0.70	0.51	0.63
ROCE	(%)	5.20	7.60	12.46
Total Debt/Tangible Net Worth	Times	1.31	1.49	2.39
PBDIT/Interest	Times	2.18	1.64	1.68
Total Debt/PBDIT	Times	9.19	6.54	10.03
Gross Current Assets (Days)	Days	99	69	115

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
11-May-2018	Cash Credit	Long Term	10.00	ACUITE B+ / 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	10.00	ACUITE B+ / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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