

Press Release

Shubham Industries

August 05, 2020

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

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

The rating continues to reflect the modest scale of operations, absence of long-term debt and modest net worth. It also factors the moderately working capital-intensive operations coupled with high utilization during peak seasons of business. Acuité believes that any change in the scale of operations with subsequent effect in the profitability and stretch in the working capital operations leading to stretch in liquidity will remain key rating sensitivity factors.

About the Firm

Gujarat-based, SI was established as a partnership firm in 2005. The firm is engaged in processing of raw cotton to produce cotton bales and cottonseed oil. The firm is promoted by Mr. Ramesh Bhai Patel and his family members who have over three decades of experience in the said line of business. 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 taken the standalone view of the business and financial risk profile of Shubham Industries to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

SI, promoted by Mr. Ramesh Bhai Patel and family have over three decades of experience in the said line of business by virtue of their association with Vikas Cotton Industries and Jay Laxmi Cotton. The installed capacity of the firm is 15,000 bales per annum which is fully utilized. The extensive experience coupled with a long track record of operations has enabled the firm to forge healthy relationships with customers and suppliers which in turn has helped in improved revenue growth, from Rs.37 Cr in FY2019 to Rs.48 Cr in FY2020 (Prov.). Acuité believes that the business is expected to benefit from its established presence in the aforementioned industry and the director's demonstrated ability; however, operations are expected to remain impacted in FY2021 due to the outbreak of COVID – 19.

- **Average financial risk profile**

Financial risk profile of the firm is average marked by comfortable gearing, comfortable total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. Gearing has improved and stood moderate at 0.56 times as on 31 March, 2020 (Prov.) as against 1.31 times as on 31 March, 2019; improved due to less year-end utilisation of short-term borrowings. TOL/TNW has improved and stood comfortable at 0.70 times as on 31 March, 2020 (Prov.) as against 1.37 times as on 31 March, 2019. However, the net worth stood modest at Rs.5.28 Cr as on 31 March, 2020 (Prov.) as against Rs.4.54 Cr as on 31 March, 2019. Of the total debt of Rs.2.97 Cr as on 31 March, 2020 (Prov.), unsecured loans from directors/promoters stood at Rs.2.83 Cr and short-term debt stood at Rs.0.14 Cr.

Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 2.23 times and 0.13 times, respectively in FY2020 (Prov.). The firm reported cash accruals of Rs.0.40 Cr for FY2020 (Prov.) against nil repayment obligations. Further, annual cash accruals are expected

to be in the range of about Rs.0.30 to 0.40 Cr in the medium term. Acuite believes that the financial risk profile is expected to remain average in the absence of any major long-term debt and any debt-funded capital expenditure for the medium term.

• Location Advantage

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

Weaknesses

• Moderately working capital intensive operations

SI's working capital operations have improved but remained moderate as evident from Gross Current Assets (GCA) of 62 days in FY2020 (Prov.) as against 99 days in FY2019. The debtor's days were recorded at 43 days in FY2020 (Prov.) as against 53 days in FY2019. The inventory days were recorded at 16 days in FY2020 (Prov.) as against 23 days in FY2019. The credit period given to customers are majorly 15 to 20 days and the suppliers are farmers who are mostly paid on the spot. Due to moderate working capital operations, the working capital limits are highly utilized at ~80 percent through peak period during Oct to May. Acuite believes that the working capital operations are expected to remain moderate with respect to the receivable cycle and which will remain a key rating sensitivity factor.

• Intense competition and fragmented industry

The company faces stiff competition from other small and unorganized players in the industry, which limits its bargaining power with customers and suppliers, and hence, exerts pressure on its margins.

Rating Sensitivities

- Growth in operating revenue and scale of operations while sustaining the margins.
- Any stretch in working capital operations leading to the deterioration of its financial risk profile and liquidity.

Material Covenants

None

Liquidity: Stretched

Liquidity profile of SI is stretched as reflected by moderately working capital-intensive operations evident from GCA days of 62 days in FY2020 (Prov.) against 99 days in FY2019. Due to moderate working capital operations, the working capital limits are highly utilized at ~80 percent through peak period during Oct to May. However, the firm has reported net cash accruals of Rs.0.40 Cr in FY2020 (Prov.) against nil repayment obligations. Further, the cash accruals are expected to be at Rs.0.30 Cr to Rs.0.40 Cr for the medium term against nil repayment obligations. The firm had unencumbered cash and bank balances of Rs.0.07 Cr as on March 31, 2020 (Prov.). The current ratio stood at 9.47 times for FY2020 (Prov.) Acuite believes that liquidity profile is expected to remain stretched on account of moderately working capital-intensive operations; however to remain partly mitigated due to the absence of any long-term borrowings.

Outlook: Stable

Acuite believes that SI will maintain 'Stable' outlook in the medium term on account of a long track record of operations and experienced management. The outlook may be revised to 'Positive' if the firm registers higher than expected growth in revenues and profitability while maintaining its liquidity position and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than expected growth in revenues and profitability or in case the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	47.51	36.61
PAT	Rs. Cr.	0.30	0.26
PAT Margin	(%)	0.63	0.71
Total Debt/Tangible Net Worth	Times	0.56	1.31
PBDIT/Interest	Times	2.23	1.63

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

India Ratings & Research, vide its press release dated Mar 01, 2018 had denoted the rating of SHUBHAM INDUSTRIES as 'IND BB-; ISSUER NOT CO-OPERATING' on account of lack of adequate information required for monitoring the ratings.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-59.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
24-Jun-2019	Cash Credit	Long Term	10.00	ACUITE B+/ Stable (Reaffirmed)
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)

Contacts

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About Acuité Ratings & Research:

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