

Press Release

Shubham Industries

June 25, 2021



Rating Upgraded

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

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB-**' (**read as ACUITE double B minus**) from '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs.10.00 Cr bank facilities of Shubham Industries (SI). The outlook is '**Stable**'.

The upgrade in the rating reflects the improvement in the revenues & profitability margins in FY2021 (Provisional) and the expected improvement going forward, moderate working capital operations marked by prudent inventory & receivable management, comfortable financial risk profile and adequate liquidity position marked by judicious utilization of the working capital facilities.

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. The firm procures raw cotton of Shankar 6 variety from Gujarat, Maharashtra, Andhra Pradesh, Karnataka and Madhya Pradesh. Cotton bales are sold to spinning mills and exporters in Gujarat, Tamil Nadu and other states. Cotton oil is sold to refineries located in Gujarat.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of SI 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 15,000-17,000 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.47.51 crore in FY2020 to Rs.48.11 crore in FY2021 (Provisional). The firm has unexecuted orders in hand of 400-500 bales i.e. Rs.1.00 crore – Rs.1.50 crore to be executed in the next 2 months which gives adequate revenue visibility over the medium term. Acuité believes that the business risk profile is expected to benefit from its established presence in the aforementioned industry and the director's demonstrated ability.

• Comfortable financial risk profile

Financial risk profile of SI is comfortable marked by improving gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing stood at 0.00 times as on March 31, 2021 (Provisional) against 0.56 times as on March 31, 2020 on account of plough back of profits to reserves and reduction in debt levels. TOL/TNW stood at 0.47 times as on March 31, 2021 (Provisional) against 0.69 times as on March 31, 2020. Tangible net worth of the firm stood modest at Rs.7.78 crore as on March 31, 2021 (Provisional) against Rs.5.28 crore as on March 31, 2020. The total debt of Rs.0.01 crore as on March 31, 2021 (Provisional) mainly consists of short-term debt of Rs.0.01 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 1.68 times and 35.23 times respectively in FY2021 (Provisional); while DSCR stood at 1.68 times in FY2021 (Provisional). Further, the firm has not availed any covid loans and covid moratorium.

Acuité believes that the financial risk profile of the company is expected to remain comfortable on account of modest net worth backed by healthy cash accruals vis-à-vis nil debt repayment obligations and moderate

debt protection metrics.

- **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.

- **Moderate working capital operations**

SI's working capital operations are moderate marked by Gross Current Asset days (GCA) of 81 days in FY2021 (Provisional) against 62 days in FY2020. The inventory days stood at 21 days in FY2021 (Provisional) against 16 days in FY2020. The inventory holding policy of the firm depends upon the market conditions. The debtors' days improved and stood at 17 days in FY2021 (Provisional) against 43 days in FY2020. The credit period given to customers are majorly 15 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 ~80-90 percent through peak period during Oct to May. However, during the non-peak season, the working capital limits are judiciously utilized in the range of 20-30 percent.

Acuité believes that the working capital operations are expected to remain moderate over the medium term.

Weaknesses

- **Agro climatic risks and Competitive and fragmented business**

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 organized as well as unorganized players.

- **Risk of withdrawal associated with partnership nature**

SI was established as a partnership firm in 2005. Any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration in its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity: Adequate

SI has an adequate liquidity position as reflected by adequate net cash accruals against nil repayment obligations. The firm generated cash accruals in the range of Rs.0.35 crore – Rs.0.49 crore during the last four years through FY2018-21 against nil repayment obligations. It is expected to generate cash accruals in the range of Rs.0.56 crore – Rs.0.75 crore over the medium term, against nil repayment obligations. Unencumbered cash and bank balances stood at Rs.0.03 crore as on March 31, 2021 (Provisional) with a current ratio of 2.88 times in the same period. Due to moderate working capital operations, the working capital limits are highly utilized at ~80-90 percent through peak period during Oct to May. However, during the non-peak season, the working capital limits are judiciously utilized in the range of 20-30 percent.

Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against nil repayment obligations.

Outlook: Stable

Acuité believes that SI will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the firm demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its profitability margins. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	48.11	47.51
PAT	Rs. Cr.	0.39	0.30
PAT Margin	(%)	0.80	0.63
Total Debt/Tangible Net Worth	Times	0.00	0.56
PBDIT/Interest	Times	1.68	1.72

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

Not Applicable

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-53.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
05-Aug-2020	Cash Credit	Long Term	10.00	ACUITE B+/ Stable (Reaffirmed)
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 BB-/ Stable (Upgraded from ACUITE B+/ Stable)

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About Acuité Ratings & Research:

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