

July 03, 2023

Riddhi Siddhi Cotfiber Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund Based Limits	13.00	13.00	[ICRA]B+ (Stable) reaffirmed;
Long-term Proposed Unallocated Limits	2.85	2.85	[ICRA]B+ (Stable) reaffirmed;
Total	15.85	15.85	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Riddhi Siddhi Cotfiber Private Limited (RSCPL) continues to take into account the modest financial risk profile of the company, characterised by low-profit margins, stretched capital structure and weak coverage indicators. The ratings are also constrained by volatility in revenues as witnessed by moderation in scale of operation of the company in FY2023 on account of unfavourable market conditions in terms of raw material prices leading to lower production and subsequent lower sales. The rating also factors in the vulnerability of the company's profitability to fluctuations in raw material prices (raw cotton), considering the inherently low value-added ginning and crushing business and the stiff competition in the cotton ginning industry. Further, it is exposed to various regulatory risks such as the minimum support price (MSP), which is set by the Government, as well as availability of cotton and related agro-climatic risks.

The rating, however, continues to favourably factor in the extensive experience of the promoters in the cotton ginning industry and the proximity of the company's manufacturing unit to raw material sources.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that RSCPL will continue to maintain its business positioning in the cotton ginning industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in cotton ginning industry – The promoters of RSCPL have over a decade of experience in the cotton ginning industry, resulting in established relationships with customers.

Location-specific advantages – The company is based in Rajkot (Gujarat), an area of high cotton acreage and quality cotton crops. Hence, the company benefits in terms of lower transportation costs and easy access to quality raw material because of its proximity to raw material suppliers.

Credit challenges

Small scale of operations; moderation witnessed in FY2023 – The company's scale of operation declined significantly in FY2023 to Rs. 62.4 crore (provisional) in FY2023 from Rs. 95.8 crore in FY2022 on account of unfavourable market conditions in terms of raw material prices leading to lower production and subsequent lower sales. This reflects the business volatility the company is exposed to in terms of its revenue profile.

Modest financial risk profile – The operating profitability remained subdued at 1.8% in FY2023 against 1.7% in FY2022 because of limited value addition and commoditised nature of the business. The capital structure remained leveraged, with gearing at 2.6 times as on March 31, 2023 on a provisional basis. Low profitability and high debt level resulted in weak debt protection metrics, as evident from TD/OPBITDA of 14.3 times, TOL/TNW of 2.7 times and an NCA/TD of 3.2% as on March 31, 2023, on a provisional basis.

Profitability remains vulnerable to fluctuations in raw material prices and regulatory changes – The profit margins for the company remain vulnerable to fluctuations in raw cotton prices, which depend on various factors such as seasonality, climatic conditions, global demand and supply situation, and export policy. The company also remains exposed to regulatory risks for the MSP set by the Government.

Intense competition and fragmented industry structure – The cotton ginning and crushing industry is highly fragmented with numerous small to mid-sized players in the field. Thus, the company faces stiff competition, which limits its bargaining power and exerts pressure on its margins.

Business operations remains vulnerable to availability of cotton and related agro-climatic risks – RSCPL’s business is exposed to agro-climatic risks as availability of cotton is seasonal and the pricing is subject to the demand-supply scenario, with the cotton season typically running from mid-September to March.

Liquidity position: Stretched

The overall liquidity position remains stretched with high working capital requirements due to high inventory levels and impending debt repayments. Given the low profitability levels and volatility in topline, the debt repayments remain tightly matched with cash accruals, necessitating promoter support in case of cash flow mismatches.

Rating sensitivities

Positive factors – ICRA could upgrade RSCPL’s rating if the company significantly scales up its operations and profitability, leading to improvement in the overall financial profile and liquidity position.

Negative factors – Negative pressure on RSCPL’s rating could arise if there is a substantial decline in revenues and profitability, along with any major debt-funded capex or stretch in working capital cycle further deteriorating the capital structure and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statement of RSCPL.

About the company

Incorporated in 2013, Riddhi Siddhi Cotfiber Private Limited is in the business of ginning and pressing raw cotton for cotton bales and cotton seeds. It also crushes cotton seeds to produce cotton seed oil and cotton seed oil cakes. The company’s manufacturing facility in Rajkot district, Gujarat, is equipped with 48 ginning machines and 18 crushing machines.

Key financial indicators (audited)

	FY2022	FY2023*
Operating Income (Rs. crore)	95.80	62.42
PAT (Rs. crore)	0.09	0.08
OPBDIT/OI (%)	1.68%	1.76%
PAT/OI (%)	0.09%	0.13%
Total Outside Liabilities/Tangible Net Worth (times)	3.43	2.66
Total Debt/OPBDIT (times)	12.61	14.26
Interest Coverage (times)	1.52	1.66

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, All ratios as per ICRA calculations, *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of Rating History for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				July 3, 2023	May 13, 2022	-	Feb 16, 2021	Apr 30, 2020
1 Fund Based Limits	Long-term	13.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)*
2 Proposed Unallocated Limits	Long-term	2.85	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)*

*Removed from ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Limits	Simple
Proposed Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	13.00	[ICRA]B+(Stable)
NA	Proposed Unallocated Limits	NA	NA	NA	2.85	[ICRA]B+(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545300
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Karan Gupta
+91 22 6114 3416
karan.gupta@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.