

## Shivam Cotton & Oil Industries

September 13, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Cash Credit	8.00	8.00	[ICRA]B (Stable); Reaffirmed
Fund-based -Term Loan	0.46	0.13	[ICRA]B (Stable); Reaffirmed
Unallocated	1.19	1.52	[ICRA]B (Stable); Reaffirmed
<b>Total</b>	<b>9.65</b>	<b>9.65</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B (pronounced ICRA B) to the Rs. 8.13-crore<sup>1</sup> fund-based facility of Shivam Cotton & Oil Industries (SCOI)<sup>2</sup>. ICRA has also reaffirmed the long-term rating of [ICRA]B to the unallocated limit of Rs. 1.52 crore of SCOI. The outlook on the long-term rating is Stable.

### Rationale

The rating reaffirmation continues to remain constrained by the weak financial profile, characterised by low profit margins, weak coverage indicator and high inventory holding as on March 31, 2018. The rating also factors in the vulnerability of the firm's profitability to fluctuations in raw material prices in the inherently low value-added ginning business and the high competitive intensity which pressurises the margins. ICRA also notes the potential adverse impact on the net worth and the gearing levels in case of substantial withdrawal from capital accounts.

The rating, however, continues to favourably factor in the extensive experience of partners in the cotton industry and the proximity of the firm's manufacturing unit to raw material (raw cotton), easing procurement.

### Outlook: Stable

ICRA believes SCOI will continue to benefit from the past experience of its partners in the cotton industry. The outlook may be revised to Positive if the firm witnesses healthy improvement in scale of operations and profitability or substantial infusion of capital or prudent working capital management strengthens the capital structure and liquidity profile. The outlook may be revised to Negative if the firm reports substantial decline in scale and profitability, leading to inadequate net cash accruals or if any debt-funded capital expenditure or any capital withdrawals deteriorates capital structure and overall liquidity position of the firm.

### Key rating drivers

#### Credit strengths

**Extensive experience of partner in cotton industry** – SCOI was established in 2012. The partners have extensive experience through their association with other entities engaged in the cotton business.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

**Location-specific advantage** – The firm benefits in terms of lower transportation cost and easy access to quality raw material due to its proximity to raw material suppliers.

## Credit challenges

**Weak financial profile** – SCOI reported a growth of ~16% in operating income to Rs. 34.92 crore in FY2018 from Rs. 30.13 crore in FY2017 on account of increase in sales volume and realisation of cotton bales and cottonseed oil. The profitability continues to remain low at 2.58% in FY2018 due to low value additive nature of business and intense competition. The net margin stood low at 0.82% in FY2018. The total debt of the firm increased to Rs. 7.60 crore as on March 31, 2018 from Rs. 5.54 crore as on March 31, 2017 on account of higher working capital required for higher inventory. The capital structure continued to remain leverage with gearing of 1.66 times as on March 31, 2018. The coverage indicator remained weak with TD/OPBDITA of 8.43 times and DSCR of 1.41 times in FY2018. The working capital intensity stood moderate at 20% in FY2018 due to high inventory holding as on March 31, 2018.

**Profitability remains vulnerable to agro-climatic condition and regulatory changes** - The cotton ginning business is low value adding in nature. The profit margins are also exposed to fluctuations in the raw material (raw cotton) prices, which depend on various factors such as seasonality, climatic conditions, international demand and supply situation, and export policy, etc. Further, it is also exposed to the regulatory risks with regards to the Minimum Support Price (MSP), set by the Government.

**Intense competition and fragmented industry** - The industry remains unorganised with presence of numerous small and players leading to stiff competition which limits the firm's pricing power and exerts pressure on its margins.

**Adverse impact on net worth** - SCOI, being a partnership firm, is exposed to adverse capital structure risk in case of substantial withdrawal from its capital accounts.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

## About the company:

Established in 2012, as a partnership firm, Shivam Cotton & Oil Industries is in the business of ginning, pressing and crushing activities of raw cotton and cottonseeds respectively. Its manufacturing unit, located in Saraya, Rajkot is equipped with 24 ginning machines, one pressing machine and five expellers with an input capacity of 19,200 metric tonne per annum (MTPA) of raw cotton. At present, SCOI is managed by eight partners who have extensive past experience in this industry.

In FY2018, the firm reported a net profit of Rs. 0.29 crore on an operating income of Rs. 34.92 crore, as compared to a net profit of Rs. 0.30 crore on an operating income of Rs. 30.13 crore in the previous year.

### Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	30.13	34.92
PAT (Rs. crore)	0.30	0.29
OPBDIT/OI (%)	3.43%	2.58%
RoCE (%)	6.46%	6.07%
Total Debt/TNW (times)	1.13	1.66
Total Debt/OPBDIT (times)	5.36	8.43
Interest coverage (times)	2.55	2.26

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Cash Credit	Long Term	8.00	5.88*	Sept 2018 [ICRA]B (Stable)	Nov 2017 [ICRA]B (Stable)	Oct 2016 [ICRA]B	Dec 2015 [ICRA]B
2 Term Loan	Long Term	0.13	0.13*	[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B	[ICRA]B
3 Unallocated	Long Term	1.52		[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B	

\*as on March 31, 2018

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	FY2012	-	-	8.00	[ICRA]B(Stable)
NA	Term Loan	FY2014	-	FY2019	0.13	[ICRA]B(Stable)
NA	Unallocated	-	-	-	1.52	[ICRA]B(Stable)

Source: Shivam Cotton & Oil Industries

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