

March 24, 2020

Saikrupa Cotgin Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based limit	15.00	[ICRA]C; Assigned
Unallocated amount	35.00	[ICRA]C/[ICRA]A4; Assigned
Total	50.00	

*Instrument details are provided in Annexure 1

Rationale

The assigned ratings on the bank facilities of Saikrupa Cotgin Private Limited (SCPL) are constrained by the company's weak credit history with delays in debt servicing in the month of August 2019. However, ICRA notes that the company has been regular in debt servicing since September 2019. SCPL's financial profile has remained weak, characterised by low net cash accruals, weak coverage indicators and high working capital intensity. The ratings further remain constrained by the vulnerability of the company's profitability to fluctuations in raw material prices (raw cotton), considering the inherently low value-added ginning business and the stiff competition in the cotton ginning industry. Further, it is also exposed to regulatory risks with regard to the minimum support price (MSP), which is set by the Government.

The ratings, however, 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.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the cotton ginning business- The operations of the company are managed by Mr. Sunil Katkade, who has over a decade's experience in the cotton ginning industry, which has resulted in established relationship with customer base.

Strategic location of the plant in the cotton producing belt of India giving it easy access to raw cotton- The manufacturing unit of SCPL is based in Yavatmal district (Maharashtra), an area of high cotton acreage and quality cotton crop. The company benefits from low transportation cost and easy access to quality raw material (raw cotton) because of its proximity to sources.

Credit challenges

Delays in debt servicing track record; however, the account has been regular in the recent past - As confirmed by the bank, the company had delayed in interest payments on its working capital limits during the month of August 2019, due to its stretched liquidity position. However, the debt servicing has been regular in the six-month period ended February 2020.

Weak financial profile characterised by low profitability, weak coverage indicators and high working capital intensity -

The operating profit margins (OPM) have remained weak over the past fiscals with majority of revenues being generated from the low value-added ginning business, while the net profit margin (NPM) was subdued further by high interest cost. The OPM and NPM stood at 3.84% and 1.29%, respectively, in FY2019. Low profitability and high debt levels resulted in weak coverage indicators with the Total Debt/OPBDITA of 4.45 times and NCA/Total Debt of 11% in FY2019. The working capital intensity also remained stretched at 22% in FY2019 due to high inventory holding, although it improved from 31% in FY2018.

Profitability susceptible to volatile raw material prices due to agro-climatic conditions and regulatory changes – The agro-climatic conditions and regulatory environment have a direct bearing on SCPL’s capacity utilisation and profitability. Regulations like MSP and export bans closely influence the price dynamics of cotton.

Highly fragmented industry structure due to a large number of processors and traders; low-entry barriers result in intense competition - The cotton ginning and cottonseed crushing industry is fragmented, given the low entry barriers and limited complexity of work involved. The company faces stiff competition from numerous players operating in the cotton growing regions of Maharashtra, which impacts its pricing power. Moreover, the value addition in the ginning and yarn trading business is low, which coupled with strong competition and the commoditised nature of its products, limits its ability to achieve high profit margins.

Liquidity position: Poor

The liquidity profile of the company has remained **poor** as evident from SCPL’s instances of delays in debt servicing. The liquidity position continues to remain poor due to weak cash accruals and highly working capital intensive nature of operations emanating from its high inventory and receivables. Further, the average utilisation of the working capital limits was full during the 12-month period ended February 2020, with a few instances of over-utilisations.

Rating sensitivities

Positive triggers – An upward movement in rating could take place in case of an improvement in the company’s liquidity position on a sustained basis.

Negative triggers – Negative pressure on the rating could arise if there is any further weakening of liquidity resulting in delay in debt servicing.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Saikrupa Cotgin Private Limited was incorporated in 2009. It is entirely a family owned company engaged in ginning and pressing raw cotton. The company also crushes cottonseed for extracting cottonseed oil and cottonseed cake. The factory, located at Wani in Yavatmal district of Maharashtra, is equipped with an annual installed production capacity of 97,500 metric tonne (MT) of cotton bales and 8,000 MT of cottonseeds. Its annual production capacity for

cottonseed oil and cakes are 5,054 MT and 34,830 MT, respectively. SCPL procures raw cotton from local farmers and sells the cotton bales and seeds to end-users like spinning mills and local ginners, through brokers.

SCPL recorded a net profit of Rs. 1.60 crore on an operating income (OI) of Rs. 123.74 crore in FY2019 and a net profit (excluding depreciation and including tax) of Rs. 0.68 crore on an OI of Rs. 89.91 crore for the 10-month period ended January 31, 2020 (provisional numbers).

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income	79.45	123.74
PAT	(3.31)	1.60
OPBDITA/ OI (%)	-0.62%	3.84%
RoCE (%)	-2.04%	9.19%
Total Debt/ TNW (times)	0.90	0.84
Total Debt/ OPBDITA (times)	(43.07)	4.45
Interest Coverage (times)	(0.20)	2.13
DSCR	(0.12)	2.01

Amounts in Rs. crore

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital employed;

TNW: Tangible Net Worth; DSCR: Debt Service Coverage Ratio

Source: Financial statements of SCPL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)			Rating History for the past 3 years			
		Type	Amount Rated	Amount Outstanding	Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Cash Credit	Long-	15.00	-	March 24, 2020 [ICRA]C	-	-	-
2	Unallocated amount	Long-term and	35.00	-	[ICRA]C/[ICRA]A4	-	-	-

Amount in Rs. crore

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

Annexure 1: Instrument details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
-	Cash Credit	-	-	-	15.00	[ICRA]C
-	Unallocated amount	-	-	-	35.00	[ICRA]C/[ICRA]A4

Amount in Rs. crore

Source: Saikrupa Cotgin Private Limited

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