



Press Release

Siddhi Cotspin Private Limited

January 20, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	97.48 (Reduced from 109.76)	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Revised from IVR BBB/Stable (IVR Triple B with Stable Outlook)	Simple
Short Term Bank Facilities	4.00 (Enhanced from Rs. 2)	IVR A3 (IVR A Three)	Revised from IVR A3+ (IVR A Three Plus)	Simple
Total	101.48 (Rupee One hundred one crore and Forty Eight lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision of the ratings assigned to the bank facilities of Siddhi Cotspin Private Limited (SCPL) is primarily on account of moderation in its profitability due to dip in average sales realisations in FY22 coupled with moderation in scale of operation in H1FY23. However, the ratings continue to derive comfort from extensive experience of the promoters in textile industry along with its easy access to raw materials and eligibility for various Government incentive schemes. The ratings also continue to consider its moderate capital structure, adequate debt protection parameters and instances of prepayment of term loan in FY23. However, these rating strengths continues to remain partially offset due to volatility in raw material prices, exposure to intense competition and expected moderation in scale of operation of the company in the near term.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis



Press Release

- Improvement in the capital structure and/or improvement in debt protection metrics with interest coverage at over 4x
- Effective working capital management with improvement in operating cycle leading to improvement in liquidity

Downward rating factor(s) –

- More than expected decline in operating income and/or moderation in profitability impacting the debt coverage indicators
- Deterioration in the capital structure with moderation in overall gearing ratio to over 2x and/or moderation in debt protection metrics marked by dip in interest coverage to below 2x
- Elongation in the operating cycle impacting the liquidity and higher average utilisation in bank borrowings to more than 90% on a sustained basis

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of promoters in textile industry**
The promoters of the company have been in the textile business for more than 20 years. Extensive business experience of the promoters with sound financial background supports the business risk profile of the company to a large extent.
- **Eligible for Government incentive schemes**
The company is entitled to benefit from incentive schemes for the textile units from the state governments such as 2.5% reimbursement of SGST. These fiscal incentives support the profitability and help in reducing the payback period.
- **Easy availability of raw material**
The company has easy access to raw materials as its manufacturing plant is located in Ahmedabad (Gujarat), which is cotton growing belt of India. Favorable location of the plant also enables the company to save on logistics costs.
- **Moderate capital structure; adequate debt protection parameters**
The capital structure of the company continues to remain moderate as on March 31,2022, marked by its moderate leverage ratios. The debt equity ratio and overall gearing ratio has improved on account of timely repayment of term loans and continues to remain moderate at 1.26x and 1.68x respectively as on March 31,2022 (1.32x and



Press Release

1.84x respectively as on March 31, 2021). The debt protection metrics of the company as indicated by interest coverage ratio continues to remain comfortable at 3.80x in FY22 vis-a-vis 2.17x in FY21. Further, Total debt to EBITDA remains comfortable at 3.26x as on March 31,2022 vis-a-vis 3.92x as on March 31,2021. The Total debt to GCA also improved from 7.02 years as on March 31,2021 to 4.32 years in as on March 31,202.

Key Rating Weaknesses

- **Profitability susceptible to fluctuations in key raw material prices**

The company's profitability is vulnerable to sharp fluctuations in raw material prices, which affects sales realisations. Cotton prices have been volatile in recent years and thus its profitability remains susceptible to any adverse movement in cotton and yarn prices. Further, the EBITDA margin of the company has moderated from 20.38% in FY21(A) to 8.84% in FY22(A) mainly due to increase in raw material prices on account of lower cotton production in FY22.

- **Exposure to intense competition**

The spinning industry is highly fragmented and competitive with the presence of large number of organised and unorganised players. Intense industry competition coupled with commoditized nature of the products limits the group's pricing flexibility and bargaining power.

- **Expected moderation in scale of operation in the near term**

Yarn price realization has moderated during FY23. Consequently, the scale of operation of the company is expected to be moderated in the near term. During H1FY23, the company has achieved a revenue of ~Rs.73 crore. Further, Infomerics expects moderation in the scale of operations in the near term. Earlier in FY22, the total operating income of the company registered a y-o-y growth of ~185% in its total operating income from Rs.142.06 crores in FY21(A) to Rs.406.19 crore in FY22(A) driven by sharp improvement in both sales volume and average sales realization of cotton yarn.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)



Press Release

[Criteria of assigning rating outlook](#)

Liquidity – Adequate

The company has prepaid its bank loans amounting to ~Rs. 10.00 crore in October 2022. The company has earned a gross cash accrual of Rs.27.42 crore in FY22 against debt repayment obligation of Rs.12.11 crore. Further, the current ratio stood comfortable at 2.07 times as on March 31, 2022 and average fund based working capital utilisation of the company in the past 12 months ended in November 2022 remained satisfactory at ~47% indicating an adequate liquidity buffer.

About the Company

Incorporated in November 2015, SCPL is engaged in the manufacturing of value added and speciality cotton yarn. Its manufacturing unit is located in Dholi Integrated Spinning Park, Dholka, Ahmedabad and commenced the commercial production from August 2017. The company has an installed yarn spinning capacity of 24 tonnes per day with 29376 ring spinning spindles.

Financials: Standalone

For the year ended* / As On	(Rs. crore)	
	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	142.06	406.19
EBITDA	28.81	36.31
PAT	2.45	8.91
Total Debt	113.07	118.54
Adjusted Tangible Net worth	61.59	70.50
EBITDA Margin (%)	20.28	8.94
PAT Margin (%)	1.72	2.19
Overall Gearing Ratio (x)	1.84	1.68

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Faciliti	Current Ratings (Year 2022-23)	Rating History for the past 3 years
---------	-----------------------------	--------------------------------	-------------------------------------



Press Release

	es	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	LT	39.10	IVR BBB-; Stable Outlook	IVR BBB; Stable Outlook (Oct 23,2021)	IVR BBB; Stable Outlook (July 24,2020)	-
2.	Cash Credit	LT	31.00	IVR BBB-; Stable Outlook	IVR BBB; Stable Outlook (Oct 23,2021)	IVR BBB; Stable Outlook (July 24,2020)	-
3.	GECL	LT	27.38	IVR BBB-; Stable Outlook	IVR BBB; Stable Outlook (Oct 23,2021)	IVR BBB; Stable Outlook (July 24,2020)	-
5.	Bank Guarantee	ST	4.00	IVRA3	IVRA3+ (Oct 23,2021)	IVRA3+ (July 24,2020)	-

Name and Contact Details of the Rating Analyst:

Name: Mr. Rahul Kr. Shaw Tel: (033) 4803 3621 Email: rahul.shaw@infomerics.com	Name: Mr. Avik Podder Tel: (033) 4803 3621 Email: apodder@infomerics.com
---	--

About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit <https://www.infomerics.com/>



Press Release

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	Sep 2026	39.10	IVR BBB-; Stable
Cash Credit	-	-	-	31.00	IVR BBB-; Stable
GECL	-	-	Mar 2026	27.38	IVR BBB-; Stable
Bank Guarantee	-	-	-	4.00	IVRA3

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-Siddhi-jan23.pdf>

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at <https://www.infomerics.com>.