



## Press Release

### Siddhi Industries Limited

September 27, 2022

#### Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Bank Facilities – Term Loan	31.37  (reduced from 36.90)	IVR BBB-/ Stable  (IVR Triple B minus with Stable Outlook)	Reaffirmed	Simple
Long Term Bank Facilities – Cash Credit	15.00  (enhanced from 10.60)	IVR BBB-/ Stable  (IVR Triple B minus with Stable Outlook)	Reaffirmed	Simple
Proposed Long Term Bank Facilities	6.00	IVR BBB-/ Stable  (IVR Triple B minus with Stable Outlook)	Assigned	Simple
Short Term Non Fund Based Facility – Bank Guarantee	0.00  (previously 1.00)	--	Withdrawn*	Simple
Proposed Short Term	0.00  (previously 1.00)	--	Withdrawn**	Simple
<b>Total</b>	<b>52.37</b> <b>(Fifty-Two Crore and Thirty-Seven Lakh only)</b>			

\*The Short Term Rated Facility is being withdrawn as per the latest sanction letter of the bank.

\*\*Withdrawn as the company has not availed the facility as envisaged.

#### Details of Facilities are in Annexure 1

#### Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Siddhi Industries Limited continues to draw comfort from its experienced management team, increase in scale of operations & profitability and improvement in capital structure & debt protection metrics.

However, the ratings strengths are partially offset by short track record of operations, presence in highly fragmented industry with intense competition from large number of players, susceptibility of profitability to volatility in raw material prices and high group exposure in terms of corporate guarantee extended to group entity.



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### **Key Rating Sensitivities:**

#### **Upward Factors**

- Significant growth in scale of business with sustenance of profitability margins thereby leading to overall improvement in cash accruals and liquidity
- Improvement in the capital structure with further improvement in debt protection metrics

#### **Downward Factors**

- Dip in operating income and/or profitability further impacting the debt coverage indicators and/or deterioration in the financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to a deterioration in the liquidity position.

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

##### **Experienced Management**

The company is promoted by Mr. Markand V. Parikh along with his son Mr. Jay Parikh and wife Mrs. Meenaben Parikh. The key promoter, Mr. Markand V. Parikh possesses around four decades of experience of working in different group of companies engaged in diverse activities. Mr. Govindram Makhnalal Basotia is one of the directors of the company who possesses almost five decades of experience into the textile industry. He looks after overall operations, administration, marketing of the company. The experience of the management has helped the company to scale up its operations during the short span of time.

##### **Increase in Scale of Operations and Profitability**

The Total Operating Income of SIL (Siddhi Industries Limited) increased by 55% Y-o-Y i.e. from Rs. 126.37 Crore in FY21 to Rs. 195.41 Crore in FY22 due to higher sales realization and increase in sales quantity.

The profitability margins of the company like EBITDA margin improved marginally by 63 bps from 18.27% in FY21 to 18.90% in FY22 due to improvement in operating efficiency. However, PAT margin declined by 224 bps from 11.95% in FY21 to 9.71% in FY22 due to accounting for higher amount of deferred tax liability in FY22. However, PBT margin of SIL improved to



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13.37% in FY22 as against 8.18% in FY21. Return on Capital Employed (ROCE) also improved from 13.50% in FY21 to 23.86% in FY22. Gross Cash Accrual of the company increased substantially from Rs. 16.46 Crore in FY21 to Rs. 30.29 Crore in FY22.

### **Improvement in capital structure and debt protection metrics**

The Overall Gearing Ratio of SIL improved from 1.66 times as on 31-Mar-21 to 0.81 times as on 31-Mar-22 due to decrease in total debt of the company as well as due to accretion of profits to reserves. The same is reflected in the total indebtedness of the company as TOL/TNW improved from 1.85x as on 31-Mar-21 to 1.08x as on 31-Mar-22. The debt protection metrics improved and stood above average marked by Interest Coverage Ratio of 8.00 times in FY22 (FY21: 3.46x) and Debt Service Coverage Ratio of 2.22x in FY22 (FY21:1.89x). Total Debt to GCA improved to 1.76 years in FY22 as against 4.74 years in FY21. The Tangible Net worth of SIL increased from Rs. 47.11 Crore as on 31-Mar-21 to Rs. 66.11 Crore as on 31-Mar-22.

### **Key Rating Weaknesses**

#### **Short Track Record of Operations**

The company started its commercial operation from July 2017. So, it is comparatively new amongst the well-established market players. SIL has only about five years of operational track record. Majority of the revenue which company earns is from the indirect exports which it makes through the merchant exporters.

#### **Highly fragmented industry with intense competition from large number of players**

The spinning industry is highly fragmented in nature with several organized and unorganized players. Prices of raw cotton are highly volatile in nature and depend upon the factors like area under cultivation, crop yield, international demand-supply scenario, inventory carry forward of the previous year. Hence, the profitability margins of the company are susceptible to fluctuation in raw material prices.



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### **Susceptibility of profitability to volatility in raw material prices**

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### **High group exposure in terms of corporate guarantee extended to group entity**

The company has extended guarantee for the debt availed by its group entity Siddhi Knitfab Private Limited (SKPL) to the tune of Rs.100 crore which is more than its own tangible net-worth. SKPL is in the process of setting up a process plant for Dyeing and Printing of Knit Fabric at Ahmedabad. As per management, SKPL will achieve the COD by September 2022, which is a month before the expected COD of October 2022.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Rating Methodology for Manufacturing Companies](#)

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

[Criteria of assigning rating outlook](#)

### **Liquidity – Adequate**

Company has generated cash accrual of Rs. 30.29 Crore in FY22 against the debt repayment obligations of Rs. 11.40 Crore due for repayment in FY23. Further, SIL's liquidity position is adequate marked by expectation of sufficient cushion in cash accruals vis-à-vis its repayment obligations in next 3 years. Average Utilization of bank limits for last 12 months ended August, 2022 stood at ~40% indicating sufficient buffer to meet incremental working capital requirements. Further, company has reported current ratio at 1.92x as on March 31, 2022. The unencumbered cash and bank balance as on 31 March 2022 is Rs. 5.01 Crore. All the factors reflect adequate liquidity position of the company.



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### About the Company

Siddhi Industries Limited was incorporated in the year 2011 and commenced its operation from July 2017. Siddhi Industries Limited is promoted by Mr. Markand V. Parikh along with his son Mr. Jay parikh and wife Mrs. Meenaben Parikh. The company belongs to “Siddhi Group” which is having diverse activities like manufacturing of edible Oil, decorative laminates, packaged drinking water, Margarine, sophisticated engineering castings/sand castings, copper components of electric transformers etc. The company has spinning unit with 24480 spindles having installed capacity of 4762 MTPA to manufacture cotton yarn specifically 30s combed hosiery and 40s CW (compact). The unit is situated in Ahmedabad, Gujarat.

### **Financials (Standalone):**

For the year ended*/ As on	(Rs. Crore)	
	2021 Audited	2022 Audited
Total Operating Income	126.37	195.41
EBITDA	23.09	36.94
PAT	15.12	19.01
Total Debt	78.1	53.26
Tangible Net Worth	47.11	66.11
EBITDA Margin (%)	18.27	18.9
PAT Margin (%)	11.95	9.71
Overall Gearing Ratio (x)	1.66	0.81

\* Classification as per Infomerics` standards

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

**Any other information: Not Applicable**

### **Rating History for last three years:**

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (July 21, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	31.37	IVR BBB-/ Stable	IVR BBB-/ Stable	--	--



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2.	Cash Credit	Long Term	15.00	IVR BBB-/ Stable	IVR BBB-/ Stable	--	--
3.	Proposed	Long Term	6.00	IVR BBB-/ Stable	--	--	--
4.	Bank Guarantee	Short Term	0.00	Withdrawn	IVR A3	--	--
5.	Proposed	Short Term	0.00	Withdrawn	IVR A3	--	--

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### 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 [www.infomerics.com](http://www.infomerics.com).



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### 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	-	-	March 2025	31.37	IVR BBB-/ Stable
Cash Credit	-	-	-	15.00	IVR BBB-/ Stable
Proposed	-	-	-	6.00	IVR BBB-/ Stable

**Annexure 2: List of companies considered for consolidated analysis: Not Applicable.**

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/Len-Siddhi-Industries-sep22.pdf>

**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 [www.infomerics.com](http://www.infomerics.com).