



Press Release

Siddhi Cotspin Private Limited

July 24, 2020

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Ratings Action
1	Long Term Bank Facilities	112.61	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Assigned
2	Short Term Bank Facilities	3.00	IVR A3+ (IVR A Three Plus)	Assigned
	Total	115.61 (Rupee One hundred fifteen Crore and Sixty one Lakh only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Siddhi Cotspin Private Limited (SCPL) derives strength from being a part of the Siddhi Group and extensive experience of the Group's promoters in textile industry, easy availability of raw material and steady increase in scale of operations. The rating also positively factors in its satisfactory capital structure with comfortable debt protection metrics. Besides, the group is eligible for various government incentives which provide additional support to profitability. However, these rating strengths remain constrained due to susceptibility of its profitability to volatility in raw material prices. The ratings also consider intense competition and subdued cotton industry scenario.

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
- Improvement in the capital structure and debt protection metrics
- Effective working capital management with improvement in operating cycle and liquidity



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Downward Factors:

- Decline in operating income and/or profitability impacting the debt coverage indicators,
- Deterioration in the capital structure and debt protection metrics
- 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 Siddhi Group 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 group to a large extent.

- **Eligible under various Government incentive schemes**

The Group is entitled to get benefit from incentive schemes for the textile units from the Central and state governments such as 10% capital subsidy on plant and machinery under the Technology Upgradation Fund Scheme (TUFS), value-added tax concession on the total eligible investment made in plant and machinery, reimbursement of SGST, interest subsidy between 5%-7% for a period of five years (till August 2022) and power tariff subsidy of Rs. 1 per unit for five years (till August 2022). These fiscal incentives support the profitability and help in reducing the payback period.

- **Easy availability of raw material**

The group has easy access to raw materials as manufacturing plants of the group are located in Ahmedabad (Gujarat), which is cotton growing belt of India. Favourable location of the plants also enables the group to save on logistics costs.

- **Increase in scale of operations**

The Siddhi group's operating income increased to Rs.488.36 crore in FY19 from Rs.202.68 crore in FY18 supported by increase in sales volume on the back of stabilization of operations of spinning, dyeing and processing units. During FY20 (provisional), the group reported total operating income of Rs.546.16 crore.



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- **Satisfactory capital structure with comfortable debt protection parameters**

The Siddhi Group as a whole has a moderate but improving capital structure marked by overall gearing ratio improving from 1.68x as on March 31, 2018 to 1.50x as on March 31, 2019. The equity infusion by promoters, accretion to reserves and repayment of term loans have enabled the group to strengthen its capital structure. Long term debt equity also improved from 1.40x as on March 31, 2018 to 1.20x as on March 31, 2019. Besides, the promoters have infused unsecured loans in the past to support the business requirements indicating the promoter's intent to infuse funds if required. To arrive at the net worth, Infomerics has considered Rs.52.26 crore of unsecured loans from promoters/ directors as quasi equity as the same is subordinated to the bank facilities. The debt protection parameters of the group remained comfortable with interest coverage of 2.07x in FY19 and 3.36x in 9MFY20. Total debt to GCA stood at 7.89 years in FY19 (15.83 years in FY18). Infomerics expects that the financial risk profile of the Siddhi group will remain satisfactory in the near term.

Key Rating Weakness:

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

The group's profitability is vulnerable to sharp fluctuations in raw material prices, which affects sales realisations. Cotton prices have been volatile in recent years, and with the yarn inventory of around 50-60 days, its profitability remains susceptible to any adverse movement in cotton and yarn prices. However, the risk is mitigated to an extent by presence in downstream value chain i.e. weaving and processing and order-backed raw material procurement policy.

- **Intense competition**

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

- **Subdued cotton industry scenario**

The domestic cotton spinning industry is highly dependent on exports, particularly to China, with ~30% of the yarn produced in India being exported. The outbreak of the coronavirus in China fueled the pressure on domestic and export yarn realisations and triggered



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moderation in realisations in recent times. Moreover, shutdowns in parts of the country have resulted in lockout of production units, resulting in lower demand for the yarn. Prolonged subdued industry scenario may impact the profitability of the group.

Analytical Approach: Consolidated

For arriving at the ratings, Infomerics has considered the consolidated financials of three companies constituting the Siddhi Group considering the same management and strong operational and financial linkage. The list of companies is given in Annexure 2.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

The liquidity position of the Siddhi group is expected to remain satisfactory in the near to medium term marked by adequate cushion in expected accruals of Rs.40-48 crore as against its repayment obligations of Rs.29-31 crore during FY21-23. However, the average working capital limit utilisation was ~90% during the past twelve months ended March 2020 indicating low liquidity buffer. The free cash and bank balance as on December 31, 2019 stood at Rs.2.13 crore.

About the Company

Incorporated in November 2015, Siddhi Cotspin Private Limited 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.

About the Group

The promoters of Siddhi Group have been in the textile business for more than 20 years. The Siddhi group is engaged across the value chain of textile industry from yarn spinning to fabric manufacturing. The companies operating under Siddhi Group are Siddhi Weaves Pvt.



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Ltd, Siddhi Cotspin Pvt. Ltd and Shivtex Spinning Pvt. Ltd, which are all controlled by the similar management and have common control.

Financials (Combined)

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Combined	Combined
Total Operating Income	202.68	488.36
EBITDA	27.44	70.64
PAT	3.90	7.97
Total Debt	234.21	279.01
Tangible Net worth	139.17	185.83
EBITDA Margin (%)	13.54	14.46
PAT Margin (%)	1.91	1.63
Overall Gearing Ratio (x)	1.68	1.50

*Classification as per Infomerics' standards.

Financials (Standalone)

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	61.11	162.20
EBITDA	12.57	31.64
PAT	0.88	3.14
Total Debt	125.78	125.46
Tangible Net worth	52.58	55.73
EBITDA Margin (%)	20.57	19.51
PAT Margin (%)	1.44	1.93
Overall Gearing Ratio (x)	2.39	2.25

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: India Ratings has moved the rating of Siddhi Cotspin Private Limited into the Issuer Non-Cooperating category as the entity did not cooperate in the rating procedure despite repeated follow ups as per the Press Release dated April 16, 2020.

Any other information: Nil



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	76.61	IVR BBB/ Stable	-	-	-
2.	Cash Credit	Long Term	36.00	IVR BBB/ Stable	-	-	-
3.	Bank Guarantee	Short Term	3.00	IVR A3+	-	-	-

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.



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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, suspend 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 / Outlook
Term Loan	-	-	March 2026	76.61	IVR BBB/ Stable
Cash Credit	-	-	-	36.00	IVR BBB/ Stable
Bank Guarantee	-	-	-	3.00	IVR A3+
Total					

Annexure 2: List of companies considered for consolidated analysis

Name of the Company	Consolidation Approach
Siddhi Weaves Private Limited	Full consolidation
Siddhi Cotspin Private Limited	Full consolidation
Shivtex Spinning Private Limited	Full consolidation