

Sheva Shevani Cotton Industries

April 12, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	7.65	CARE B-; Stable; ISSUER NOT COOPERATING* (Single B Minus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE B+; Stable; (Single B Plus; Outlook: Stable)
Total Bank Facilities	7.65 (Rs. Seven Crore and Sixty-Five Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated March 09, 2020, placed the rating(s) of Sheva Shevani Cotton Industries (SSCI) under the 'issuer non-cooperating' category as SSCI had failed to provide information for monitoring of the rating. SSCI continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and an email dated March 2020 to April 05, 2021. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings have been revised on account of non-availability of requisite information due to non-cooperation by Sheva Shevani Cotton Industries with CARE's effort to undertake a review of the outstanding ratings as CARE views information availability risk as key factor in its assessment of credit risk profile.

Detailed description of the key rating drivers

At the time of last rating on March 09, 2020 the following were the rating strengths and weaknesses

Key Rating Weakness

Short track record with small scale of operations

The firm was established in the year 2016 as a partnership firm by Ms. Santhoshi Kumari and other partners resulting to small scale of operations. Despite of presence in the market for less than 3 years, the firm has achieved significant TOI of Rs.45.23 crore in FY18, however scale of operations and net worth of Rs. 2.69 crore as on closing balance sheet date which is low as compared to other peers in the industry.

Financial risk profile marked by leveraged capital structure and weak debt coverage indicators

The Capital structure of the firm remained leveraged during review period. Debt equity ratio and overall gearing ratio of the firm marginally improved from 0.87x & 2.98x as on March 31, 2017 to 0.36x & 2.86x as on March 31, 2018 due to scheduled repayment of term loan and lower utilization of working capital bank borrowings.

Debt coverage indicators of the firm remained weak during review period. Total debt/GCA of the firm improved from 37.11x in FY17 to 29.75x in FY18 due to increase in cash accruals coupled with decrease in total debt levels on account of lower utilization of working capital bank borrowings and repayment of term loans.

However, PBILDT Interest coverage ratio of the firm marginally deteriorated to 1.29x in FY18 from 1.36x in FY17 due to increase in interest cost on account of inclusion of bank processing charges and despite of increase in PBILDT in absolute terms.

Total debt/cash flow from operations stood at 2.25x as on March 31, 2018 due to increase in cash flow from operating activities on account of stabilization of business and increase in inventory coupled with decrease in debt levels.

Constitution of the entity as partnership firm with inherent risk of withdrawal of capital

SSCI, being a partnership firm, is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners. Moreover, partnership firm business has restricted avenues to raise capital which could prove a hindrance to its growth. The partners has withdrawn a capital of Rs. 0.52 crore in FY18.

Susceptibility of profits at volatile price fluctuation and seasonality associated with availability of cotton

The cotton 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, and demand-supply scenario. The cotton processing operators procure raw materials in bulk quantities to avail discount from suppliers to mitigate the seasonality associated with availability of cotton resulting in higher inventory holding period. Further, the profitability margins of the firm are susceptible due to fluctuation in raw material prices.

Highly fragmented industry with intense competition from large number of players

The firm is engaged in manufacturing of cotton yarn which is highly fragmented industry due to presence of large number of organized and unorganized players in the industry resulting in huge competition

Key Rating Strengths**Growth in Total Operating Income during the review period**

Sheva Shevani Cotton Industries was established in May 2016 as a partnership firm and started its commercial operations from October 2016. SSCI is promoted by Ms. V. Santhoshi Kumari, managing partners along with her family members as other partners. The day to day operations of the firm are managed by Mr. Pavan Kumar (spouse of V. Santhoshi Kumari), who has an experience of more than one decade in this business. The firm has achieved total operating income of Rs. 45.23 crore in FY18 which increased from 26.85 crore in FY17 (6 months of operations) due to stabilization of business at the back of increase in orders from existing and new customers. Due to the long term presence of the promoters spouse's in the market, the firm has good relation with the customers and suppliers. The firm has achieved a TOI of Rs. 20 crore and Net profit of Rs. 0.20 core in 9M FY19 (Prov.,)

Increasing PBILDT margins albeit thin PAT margins

The PBILDT margin of the firm has been increasing during the review period i.e, from 1.98% in FY17 to 2.90% in FY18 due to stabilization of business resulted in under absorption of overheads. Though, the PAT margin of the firm improved from 0.09% in FY17 to 0.15% in FY18 due to increased amount of PBILDT in absolute terms, remained thin

Comfortable operating cycle days

The operating cycle days of the firm remained comfortable and stood at 85 days in FY18 due to comfortable average collection and inventory days. Firm receives the payment from its customers within a period of 15-30 days. Further, the firm makes the payment to its suppliers/farmers either immediately or within 4 days. The firm maintains the inventory level of 45 days, as the firm stocks the raw material since the quality of cotton will not be good during the other harvesting period. The average cash credit utilization during on season (October –March) is 99% and during off season (April-September) is 60%.

Location advantage

SSCI manufacturing unit is located in one of the major cotton growing areas in Telangana. Availability of raw material is not expected to be a concern as the firm procures raw material (raw cotton) from the farmers and traders located in and around Karimnagar. SSCI enjoys proximity to the cotton producing belt of Telangana which results in ease of access to raw material with low transportation cost.

Stable outlook of cotton industry

Cotton plays an important role in the Indian economy as the country's textile industry is predominantly cotton based. India is one of the largest producers as well as exporters of cotton yarn. The Indian textile industry contributes around 5 per cent to country's gross domestic product (GDP), 14 per cent to industrial production and 11 per cent to total exports earnings. The industry is also the second-largest employer in the country after agriculture, providing employment to over 51 million people directly and 68 million people indirectly, including unskilled women. The textile industry is also expected to reach US\$ 223 billion by the year 2021. The states of Gujarat, Maharashtra, Telangana, Andhra Pradesh, Karnataka, Madhya Pradesh, Haryana, Rajasthan, and Punjab are the major cotton producers in India.

Analytical Approach: Standalone**Applicable criteria**

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios- Non-Financial Sector](#)

[Rating Methodology –Manufacturing Companies](#)

About the Firm

Telangana based, Sheva Shevani Cotton Industries (SSCI) was incorporated in May 2016 as a partnership firm and is promoted by Ms. V. Santhoshi Kumari, managing partner along with her family members. Firm's registered office and factory are located in Rukmapur, Telangana. Prior to the establishment of SSCI, the spouses of the current partners have established "Subramanya Cotton Ginning Industry" in the year 2008 as partnership firm. The firm is engaged in ginning and pressing of cotton produces 5000 quintals of lint per month during on season. Whereas, during off season the firm produces 0-100 quintals of lint per month and to exist in the market, firm sells maize or any other agricultural products. SSCI purchases 90% of raw cotton from farmers located in Karimnagar district and 10% from traders in Karimnagar district in the state of Telangana. The firm has the customer base from across India in the states of Tamilnadu, Coimbatore (Lint) and Haryana, Gujarat, Madhya Pradesh, Uttar Pradesh, Punjab, Maharashtra and Rajasthan. The firm also sells to other countries through deemed exports.

Brief Financials (Rs. crore)	FY17(A)	FY18 (A)
Total operating income	26.85	45.23
PBILD	0.53	1.31
PAT	0.03	0.07
Overall gearing (times)	2.98	2.86
Interest coverage (times)	1.36	1.29

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March-2024	0.85	CARE B-; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	6.80	CARE B-; Stable; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on based available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	0.85	CARE B-; Stable; ISSUER NOT COOPERATING*	-	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (09-Mar-20) 2)CARE BB-; Stable (17-Jun-19)	-
2.	Fund-based - LT-Cash Credit	LT	6.80	CARE B-; Stable; ISSUER NOT COOPERATING*	-	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (09-Mar-20) 2)CARE BB-; Stable (17-Jun-19)	-

*Issuer did not cooperate; based on based available information

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Name: Mr. Mradul Mishra

Contact no. – +91-22-6837 4424

 Email ID – mradul.mishra@careratings.com
Analyst Contact

Name: Ms. P Shanti

Contact no: 040-67937417

 Email: p.shanti@careratings.com
Business Development Contact

Name: Mr. Ravi Babu

Contact no: 9989998695

 Email ID: ravi.babu@careratings.com
About CARE Ratings:

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