

AUGUST 09, 2016

CARE ASSIGNS 'CARE BBB-' RATING TO THE BANK FACILITIES OF SCIL CAPITAL INDIA PRIVATE LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Bank Facilities-Fund-based - LT-EPC/PCFC/PSCFC/ FBP*	20	CARE BBB- (Triple B Minus)	Assigned
Total Facilities	20 (Rupees Twenty Crore only)		

*EPC=Export packing credit; PCFC=Packing credit in foreign currency; PSCFC= Pre-shipment Credit in Foreign Currency; FBP= Foreign Bills Purchased

Rating Rationale

The rating assigned to the bank facilities of SCIL Capital India Private Limited (SCIL) derives strength primarily from association with M/s Khimji Visram & Sons (KVS) which is an established player in the cotton trading industry, having a very long operating track record and its support to SCIL in terms of extending strong sourcing set-up and extensive distribution network enabling SCIL to garner a global outreach.

The rating further takes into account the extensive experience of promoters in cotton trading, company's comfortable liquidity position supported by its liquid investment portfolio, favourable capital structure and short operating cycle.

Nonetheless, the company's profitability margins are exposed to volatility integral to the trading nature of its operations. Also, the company operates in a very fragmented industry with high product concentration risk and is also exposed to the risk of changing government regulations and climatic conditions. These are some of the weaknesses partially offsetting the strengths of the company.

Scaling up the business and improving profitability margins amid intense competition, cotton price volatility, exposure to unanticipated changes in climatic conditions and government regulations remain the key rating sensitivities.

Background

SCIL was incorporated in August 1995 as a registered NBFC. As an NBFC, the company primarily dealt in trading of equity shares, debentures and preference shares along with investing in Venture capital, Mutual Funds and bonds. In addition, the company's business also included granting Inter-Corporate deposits (ICDs). Furthermore, the company was also in the business of trading and export of cotton bales. SCIL initiated cotton trading business in August 2015 with reducing contribution from NBFC business. Its group company, M/s Khimji Visram & Sons (KVS) has been in the business of cotton trading for more than 140 years. Apart from all the partners of KVS holding individual stakes in SCIL, during the year Khimji Visram & Sons (Gujarat) Pvt Ltd bought 14.6% stake in SCIL. SCIL is looking at encashing the opportunities in cotton trading by leveraging the vast experience of its group company in this line of business.

For the NBFC business (SCIL), Khimji Visram & Sons had a JV arrangement with the Japanese NBFC, Sakura Bank (now Sumitomo Mitsui Banking Corporation), in which Sakura had a 75% stake and the remaining 25% was held by KVS group.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

After the Asian Financial Crisis in 1997, Sumitomo bank exited India and there was a buyback by the existing shareholders of SCIL.

During FY16 (provisional; refers to the period April 1 to March 31), the company reported a PAT of Rs.0.69 crore (Rs.0.62 crore in FY15) on total operating income of Rs.85.71 crore (Rs.395.69 crore in FY15).

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor 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 in addition to the financial performance and other relevant factors.

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