

**SCIL Capital India Private Limited**  
 January 19, 2018

**Ratings**

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
LT Fund-based – EPC/PCFC/PSCFC/ FBP	20.00	<b>CARE BBB-; Negative (Triple B Minus; Outlook: Negative)</b>	<b>Reaffirmed</b>
Total bank facilities	<b>20.00</b> <b>(Rupees Twenty Crore only)</b>		

**Detailed Rationale & Key Rating Drivers**

*The rating assigned to the bank facilities of SCIL Capital India Private Limited (SCIL) continues to derive strength primarily from association with M/s Khimji Visram & Sons (KVS) which is an established player in the cotton trading industry, having a 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, established distribution network, satisfactory liquidity position of the company supported by its liquid investment portfolio, favourable capital structure and moderate operating cycle.*

*The ratings, however, remain constrained on account of decline in revenues and losses posted by company in FY17, risk of raw material price volatility, operations of company in a very competitive fragmented industry with high product concentration risk and the risk of changing government regulations and climatic conditions.*

**Outlook: Negative**

The outlook is revised to 'Negative' in light of deteriorated financial performance of the company in FY17. The outlook may be revised to 'Stable' depending upon company's ability to counter the price volatility risk by the hedging mechanism instituted by the company and achieve growth and stability in operations.

**Detailed description of the key rating drivers****Key Rating Strengths****Extensive experience of the promoters and long track record of KVS group in the cotton industry**

SCIL is promoted by Mr. Nayan Mirani (Managing Director) of the company and Mr. Manish Mirani, (whole-time director), having an experience of more than three and a half decades and around three decades, respectively in the cotton trading business.

SCIL belongs to the KVS group, one of the leading cotton trading merchants in India, with a strong reputation and long and demonstrated operating track record of more than 140 years in the trade. The group operated through M/s Khimji Visram & Sons (partnership firm) established in the year 1870 and is in the business of cotton trading. The firm exports cotton in ginned and fully pressed bales since 1980.

**Strong sourcing arrangement with domestic suppliers and established distribution network of the KVS group enabling SCIL a wider geographical presence**

KVS group has a well-established logistical network for procuring and exporting cotton from various parts of India and catering to global markets. The group has branches in all major cotton growing states in the country including Ahmedabad, Rajkot, Bhatinda, Sri Ganganagar, Kadi, etc. The company sources cotton from ginneries (currently around 100) in Rajasthan, Punjab, Haryana, Gujarat, Maharashtra and Andhra Pradesh. The group exports to various countries like Japan, China, Pakistan, Bangladesh, Turkey and other South East Asian countries.

In the domestic markets the group has well established relations with many spinning mills, weaving mills, knitting and toweling units. It supplies raw cotton to a number of leading mills in India- Over the years, KVS group has been able to establish itself as a preferred vendor for supplying cotton to reputed clients globally, as it gets repeated orders from its existing clients.

Thus, SCIL stands to benefit on the operational side from the group's long and established presence in the cotton trading business, its strong relations with customers and suppliers. During FY17, the company derived major revenues from export markets like Pakistan, Thailand, China and Singapore.

**Moderate operating cycle**

During FY17, the operating cycle of SCIL stood at 53 days on the back of collection period of 30 days, inventory holding period of 38 days and creditors payment period of 15 days. The company sells goods to its clients in the export market based on LC backed or advance payment of around 10-30% on a client to client basis. SCIL procures cotton from ginneries by either upfront payment of cash (to avail cash discounts) or credit period extended by the ginneries in the range of 15-20 days.

**Favourable capital structure along with satisfactory liquidity position**

As on March 31, 2017, the company's debt profile comprises of only working capital borrowing needed to support its operations. The capital structure of the company remained favourable as overall gearing stood at 0.15x as on March 31, 2017 owing to lower utilisation of bank borrowings.

The company's liquidity position is satisfactory supported by the investment portfolio of equity investments, ICDs, mutual funds including liquid funds, venture capital funds and bonds & debentures. As at March 31, 2017, the company held about Rs.31.70 crore of investments providing adequate liquidity cushion to meet exigencies (if any). However going forward, its ability to maintain liquidity would be critical from credit perspective.

**Key Rating Weakness**

**Decline in revenues in FY17; albeit improvement seen in 9MFY18 on a y-o-y basis**

During FY17, revenues declined by around 26.44% (vis-à-vis FY16 revenues) owing to demonetisation as a result of which prices remained firm and farmers/intermediaries kept stocking in anticipation of higher prices during the harvesting period (Oct –March). As a result, SCIL did not enter into fresh trading contracts on account of higher prices which resulted

into lower revenues. Besides, the company incurred losses at the operational levels owing to lower revenues coupled with higher prices of traded goods owing to the reason explained above.

Although, during 9MFY18, SCIL achieved sales of Rs.27.76 crore as compared to sales of Rs.0.98 crore in 9MFY17, going forward, achievement of revenues as envisaged is critical from credit perspective.

### **Raw material price volatility risk**

Due to the commodity trading nature of business, the company is exposed to price volatility risk. Further, the company operates on low profitability margins. In FY17, the company incurred operating losses owing to higher commodity prices. As per discussions with the management, the company has instituted a hedging mechanism now and going forward, the ability of the company to counter the price volatility risk and achieve growth and stability in operations would be a key rating consideration.

### **Product concentration risk and exposure to other risks**

The company earns majority of its revenues from trading in single product i.e. raw cotton which exposes it to the product concentration risk. SCIL is also exposed to regulatory risks. In India, government controls the prices of cotton under the MSP mechanism and also cotton cultivation is affected due to changes in the weather conditions, hence the company is exposed to fluctuations in cotton and yarn prices. Further, the cotton trading is also seasonal in nature with majority of the sales done during the period from October to May and the industry is fragmented due to the presence of large number of organized & unorganized players leading to intense competition.

**Analytical approach:** Standalone

### **Applicable Criteria**

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

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

[Rating Methodology - Wholesale Trading](#)

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

### **About the Company**

SCIL Capital India Private Limited (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.

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

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	85.04	62.55
PBILDT	0.48	NEG
PAT	0.07	NEG
Overall gearing (times)	-	0.15
Interest coverage (times)	1.35	NM

A: Audited; NM = not meaningful; NEG= Negative

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

**Any other information:** Not applicable

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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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.

## 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-EPC/PSC	-	-	-	20.00	CARE BBB-; Negative

## 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-EPC/PSC	LT	20.00	CARE BBB-; Negative	-	1)CARE BBB- (09-Aug-16)	-	-

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