Sanathan Textiles Private Limited

January 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	497.13	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	85.00	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	**582.13 (Rs. Five Hundred Eighty-Two Crore and Thirteen Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to Sanathan Textiles Private Limited continues to derive strength from the promoters' extensive experience in the textile segment, diversified product profile and stable margins. The ratings are however constrained by high gearing levels, susceptibility to fluctuations in raw material prices and foreign exchange rates and high supplier concentration risk.

Sanathan Textile Pvt Ltd has sought moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. CARE has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Key rating Sensitivities

Positive Factors

- Improvement in liquidity position with the current ratio > 1.50x on a consistent basis
- Improvement in capital structure with the overall gearing ratio at 1x or less.

Negative factors

- Deterioration in the liquidity position
- Deterioration of profitability margins with PBILDT margin being less than 10%
- Deterioration of debt coverage indicators with overall gearing exceeding 2.00x

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Management

Sanathan Textiles Pvt Ltd (STPL) is promoted by the Dattani family having over decades of experience in the Textile industry. The promoters, i.e. Mr. Vallabhdas V. Dattani (Chairman), Mr. Paresh Kumar V. Dattani (Managing Director) and Mr. Ajay Kumar V. Dattani, have more than four decades of experience in various segments/aspects of Textile industry. Mr. Vallabhdas V. Dattani was instrumental in setting up and promoting business in new markets. Promoters have supported the operations of STPL through infusion of funds in past. Unsecured Loans from related parties as on 31-March-20 was Rs 24.80 cr

Stable Operations and Profitability Margin and a Diversified Product Profile

STPL recorded stable operations with Income witnessing a marginal decline of 10% from Rs 2346.30 cr in FY19 to Rs 2110.85 cr in FY20 on account of the decline in Raw material costs being passed on to the clients and due to disruption in business for almost 10 days in March 2020-due to the pandemic. However, the profitability margins remained stable in FY20 with the PBILDT margin at 10.86% (FY19-10.60%) and PAT margin at 2.44% (FY19-2.53%).

STPL has a diversified product profile. Polyester Textured Yarn(PTY), Polyester Twisted Yarn, Polyester oriented Yarn, Fully Drawn Yarn, PET Chips, Cotton Yarn and Industrial Yarn are its major product lines with PTY sales accounting for nearly 57% of Total revenue.

STPL undertook a cap ex project of Rs 244.20 cr to expand its cotton spinning division in FY19-to expand its capacity from 6200 MTPA to 14000 MTPA(cotton spinning capacity increased from 60,000 spindles to 1,32,960 spindles post capex) , in order to produce multiple counts of cotton 20s, 40s, 60s etc. The projected was completed in March 2020 for yarn

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

production (ancillary tasks such as solar panel installation are currently being done) and the plant commenced operations. The plant is currently operating at 98.50% capacity.

Moderate Client Concentration Risk
The client concentration risk experienced by STPL is moderate with the aggregate sales generated by the top 5 clients accounting for 12.16% of total Sales(PY- 10.79%)-of which top 2 contribute to 6.50% of total sales(PY-5.42%)

Key Rating Weaknesses

High Gearing level
STPL's financial risk profile is characterized by leveraged capital structure on account of aggressive debt funded capacity expansions undertaken over the past few years. The overall gearing and debt capital remained stable in FY20 at 1.82x(PY-1.81x) and 1.41x (PY-1.40x) respectively despite the increase in TL (Rs 196 cr TL was undertaken by STPL to fund its cap ex project-Rs 140 cr was the total amount disbursed in FY20 , Rs 175 cr was the total amount disbursed as on 30-Sep-20 and Rs 180 cr was the total amount disbursed as on 22-Dec-20 . The remaining amount will be disbursed in the next 3 months in FY21). This can be attributed to the high level of scheduled repayments (debt repayment of Rs 97.97 cr in FY20) and the accretion of profits to reserves. PBILDT Interest coverage ratio witnessed a marginal improvement from 4.14x in FY19 to 4.49x in FY20 on account of a 15% decline in interest expenses in FY20.

Volatile Raw Material Prices and Foreign Exchange Fluctuation Risk

Raw Material Prices: The main raw material of STPL is Purified terephthalic acid (PTA), mono-ethylene glycol (MEG), Polyester Chips and Partially Oriented Yan (POY). These raw materials are derivatives of crude oil and its price is dependent on movement of crude oil prices. Further, key raw material has to be purchased from bigger players; therefore bargaining power of the company remains low. Cotton prices are susceptible to factors such as rainfall pattern in cotton producing areas, pest attacks, and availability of cheap imports, MMF prices and government regulations. Therefore, the company continues to be exposed to any fluctuation in the prices of cotton. Hence, any adverse volatility in the raw material prices may affect the company's margins. However this is partially mitigated by the company passing on the fluctuation to their customers, albeit with a time lag of 20-30 days.
Forex Fluctuation Risk: STPL is also exposed to foreign exchange fluctuation risk on account of part term debt in foreign currency. Net loss incurred on foreign currency transaction during FY20 was Rs 11.15 cr (PY- Rs 8.18 crore). As on March 31, 2020; out of term loan of Rs. 504.14 crore, Rs. 291.62 crore of debt is in foreign currency. The company also has export sales and import of raw material. During FY20 the company has exports sales of Rs 372.10. STPL hedges against FX risk by holding forward contracts and derivatives-Foreign Exchange Forward Contracts, designated as a hedging instruments and derivative assets as on 31-March-20 were Rs 1.09 cr and Rs 1.47 cr respectively.

High Supplier Concentration Risk
STPL experiences high supplier concentration risk with aggregate purchases accounting for nearly 78% of total sales (PY-80%), of which the top 2 suppliers account for 50% of total purchases (PY-48%).

Fragmented and competitive industry leading to low pricing power

STPL operates in a highly commoditized and fragmented yarn industry marked by large number of organised as well as unorganised players coupled with low entry barriers. Intense competition limits the pricing abilities of the players in the industry. Furthermore, the industry is characterized by players having low bargaining power against large suppliers. Additionally, the presence of dominant and integrated player such as Reliance Industries Ltd, Bhilosa Industries Limited. etc. with better bargaining powers limits the pricing flexibility of players operating in the segment.

Industry Outlook
The demand for manmade fibre/ yarn is also expected to remain subdued due to low downstream demand. Also, exports will remain affected in the man-made fibre segment, which accounted for around 40% of the total man-made fibre production during FY19. The output of man-made fibre and yarn grew by 40% to 3,029 thousand tonnes during the period April 2019-January 2020. The rise production is mainly due to increase in the number of reporting units in FY20 as compared to previous year. India is increasingly importing cheap apparel from Bangladesh, which sources cheap fabric from China. Not only is Bangladeshi apparel more affordable, but imports of clothing from Bangladesh also do not attract any duty under the South Asian Free Trade Agreement (SAFTA).
Decline in crude oil prices though will improve the liquidity position for MMF players but will also result in inventory losses. Synthetic fibre and yarn manufacturers are expected to benefit from removal of anti-dumping duty on purified terephthalic

acid (PTA), the key raw material used to produce synthetic fibre and yarn, and lower PTA prices in FY21. While low raw material prices will ease some pressure on spinners' margins, sales revenues will continue to remain under pressure in FY21. Inverted duty at fabric stage has resulted in cloth manufacturers buying imported PSF and PFY. This is because unlike synthetic fabric, which attracts a GST of 5%, synthetic yarn attracts GST of 12%. The demand for cotton yarn is expected to decline significantly in H1FY21 leading to deterioration in the operational and financial performance of the companies engaged in the segment. Cotton yarn prices, which were already under pressure in FY20, are expected to decline further in FY21. However, cotton being a seasonal crop, major procurement by spinning mills happens till February/ March, thereby fixing their procurement costs. With yarn realization expected to decline, and majority of the procurement cost already fixed, the spread and profitability margins of the industry players are expected to witness a further deterioration. Also, with declining cotton prices, domestic spinners could be looking at inventory losses in the future. With major procurement of cotton almost done, majority players will be having limited cushion available in their working capital borrowings. Delay in payment from customers has also increased their reliance on the external borrowings. To address the liquidity concerns of the industry, some solace has been provided by the Reserve Bank of India (RBI) in the form of moratorium announced on the payment of term loan installment and interest on working capital borrowings along with easing of working capital financing. This will lead to many companies resorting to incremental working capital borrowings from banks.

Liquidity analysis: Adequate
STPL's operating cycle witnessed an increase from 8 days in FY19 to 15 days in FY20 on account of an increase in the average inventory period. The current ratio improved from 0.87x in FY19 to 0.95x in FY20. The cash and bank balance as on 30-Sep-20 was Rs 32.68 cr. The cash flow from Operations for FY20 was Rs 154.63 which helped in repayment of debt of Rs 97.97 cr during FY 20 . Debt repayment for FY21 is Rs 54.39cr out of which Rs 30.23 cr has already been paid as on 22-Dec-20. The average utilization level of Fund based working capital facilities for 12 months ended Oct 2020 is 40%. STPL had availed a moratorium on payments from its lenders as part of the COVID-19 regulatory package announced by the RBI in addition to availing an emergency COVID credit of Rs 12.60 cr (fully disbursed in Aug 2020)to meet its working capital requirements. The company has not applied for a One Time Restructuring for its debt facilities. The non fund based limits are fungible with the fund based limits.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'Outlook' and 'Credit watch' to Credit Ratings
CARE's policy on Default recognition
Rating Methodology- Manufacturing Companies
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology for Cotton Yarn Industry
Rating Methodology for Manmade Yarn Manufacturing Sector

About the Company
Sanathan Textiles Private Limited (STPL) was incorporated in 2005, taking over the business of partnership firm M/s Sanathan Texturisers which was established in 2002. It is promoted by Dattani family and is primarily engaged in the manufacturing of Polyester Texturised Yarn (PTY), Partially Oriented Yarn (POY), Fully Drawn Yarn (FDY), Polyester (PET) chips, Industrial yarn and Cotton yarn, with an installed capacity of 3,98,575 MTPA in FY20. The manufacturing facility is located at Surangi, Silvassa and Dadra & Nagar Haveli.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2346.30	2110.85
PBILDT	248.63	229.18
PAT	59.29	51.42
Overall gearing (times)	1.81	1.82
Interest coverage (times)	2.51	2.56

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure 3

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	-	-	Sep 2028	347.13	CARE BBB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	20.00	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	150.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	65.00	CARE A3+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	347.13	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Feb-20)	1)CARE BBB; Stable (11-Feb-19) 2)CARE BBB; Stable (29-Jun-18)	1)CARE BBB; Stable (05-Jan-18)
2.	Non-fund-based - ST-Bank Guarantees	ST	20.00	CARE A3+	-	1)CARE A3+ (06-Feb-20)	1)CARE A3+ (11-Feb-19) 2)CARE A3+ (29-Jun-18)	1)CARE A3+ (05-Jan-18)
3.	Fund-based - LT-Cash Credit	LT	150.00	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Feb-20)	1)CARE BBB; Stable (11-Feb-19) 2)CARE BBB; Stable (29-Jun-18)	1)CARE BBB; Stable (05-Jan-18)
4.	Non-fund-based - ST-BG/LC	ST	65.00	CARE A3+	-	1)CARE A3+ (06-Feb-20)	1)CARE A3+ (11-Feb-19) 2)CARE A3+ (29-Jun-18)	1)CARE A3+ (05-Jan-18)

Annexure 3: 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
3.	Non-fund-based - ST-BG/LC	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.*

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