Sutlej Textiles & Industries Limited

September 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	746.08 (Reduced from 757.04)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	600.00	CARE A; Stable / CARE A1 (Single A; Outlook: Stable/ A One)	Reaffirmed
Short Term Bank Facilities	45.00 (Reduced from 45.30)	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**1,391.08 (Rs. One Thousand Three Hundred Ninety-One Crore and Eight Lakhs Only)**		
Proposed Commercial Paper Issue^	300.00	CARE A1 (A One)	Reaffirmed

^Carved out of the sanctioned working capital limits of the company.
Details of facilities/instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Sutlej Textiles and Industries Limited (STIL) continues to derive strength from strong presence in value added dyed spun yarn/specialty yarn segment and experienced management in the Textile industry (especially spinning segment). The ratings also factor in moderate debt coverage metrics and comfortable liquidity position.

The ratings are tempered by working capital intensive nature of operations, continued losses in home textile division, susceptibility to fluctuation in raw material/product prices and fluctuation in foreign exchange imparting volatility to profitability and cyclical & competitive and fragmented nature of the industry

Rating Sensitivities

Positive Factors

- PBILDT margins of 12% and more on sustained basis
- Sustained profitability in home textile business

Negative Factors

- Higher than envisaged debt levels due to funding of capex and/or higher working capital requirements leading to deterioration of capital structure i.e., total outside liabilities to total tangible net worth to 1.25x and above.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Management in Textile industry

Sutlej Textiles and Industries Limited (STIL) was part of the erstwhile K.K. Birla Group which was incorporated in 1932. In 2011 after the family division it came under Ms. Nandini Nopany faction. Mr. C.S. Nopany, grandson of late K.K. Birla and son of Ms. Nandini Nopany is the Chairman of company. STIL is led by a team of experienced professionals led by Mr. Updeep Singh (President & CEO) having more than 25 years' experience in Textile industry.

Moderate capital structure and debt coverage metrics

STIL's financial risk profile is characterised by moderate capital structure and debt coverage ratios. Debt coverage indicators such as total debt to GCA deteriorated to 9.47 times respectively as on March 31, 2021 from 6.39x as on March 31, 2020 on account of lower cash accruals and increase in utilization of working capital borrowings due to COVID-19 pandemic. Similarly, interest coverage ratio deteriorated to 2.89 times in FY21 as against 4.04x in FY20. However, it improved to 5.20x in Q1FY22. Overall gearing continues to remain moderate at 0.97 times as on March 31, 2021 as against 0.93 times as on March 31, 2020 on account of higher working capital utilization. Going ahead, overall gearing is expected to improve marginally albeit continue to remain moderate.

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

Diversified customer base
STIL has a diversified large customer base with no single customer accounting for over 10% of gross sales. Its top ten customers contributed ~22% to FY21 gross sales (PY: ~17%). STIL sells its products both domestically as well as exports it across the globe and its customers are geographically diversified. During FY21, the share of exports to the total income improved to ~35% (PY: ~32%). It further improved to ~39% in Q1FY22.

Key Rating Weakness
FY21 operational performance significantly impacted due to COVID-19
The company's yarn division has reported reduced profitability of 3.87% in FY21 vs. 5.67% in FY20 primarily on account of impact of covid-19 pandemic. However, it improved to 10.24% in Q1FY22 driven by better yarn realization. STIL reported a dip in total income by 19.62% to Rs.1,954 crore in FY21 as against Rs.2,431 crore in FY20. The decline in total income was on account of impact of the COVID-19 pandemic-induced lockdown and sectorial sluggishness. Further during Q1FY22 STIL reported total income of Rs.590.51crore. During FY21, STIL's PBILDT margin declined to 7.11% from 7.60% in FY20. However, it improved to 10.78% in Q1FY22 driven by better realization in yarn segment.

Operating margins expected to improve from FY22 on account of inhouse extraction of PSF
STIL has setup a Recycled Polyester Staple Fibre (RPSF) Plant with a capacity of 120 tons/day in FY21 at a capital outlay of ~Rs.225 crore which produces Polyester Staple Fibre by recycling PET bottles. The Polyester Staple Fibre is thereafter used as raw material in the manufacture of yarns. The commercial production commenced from 1st March 2021. This will reduce dependence of the company on external sources for recycled staple fibre and aid in operating margins going forward.

Home textile division continues to incur losses
In FY21, STIL's home textile division which contributes around 5% to the overall turnover continues to impact the company's overall profitability on account of lower turnover and high fixed costs. The division posted a loss of Rs. 33.84 crore in FY21 as against a loss of Rs. 33.76 crore in FY20. The division in Q1FY22 posted a loss of Rs.9.98 crore. The ability of the management to turnaround the home textile division as envisaged remains critical from credit perspective.

Cyclical and fragmented industry
STIL operates in a cyclical and fragmented textile yarn industry marked by organised as well as unorganised players. Intense competition in the industry limits the pricing abilities of the players in the industry. However, the risk is partly mitigated as STIL is among a few exclusive spinners in India for specialty yarns such as modal, lycra, tencil and other value-added yarns in the country apart from being one of the prominent manufacturers of dyed cotton blended/mélange yarn in the country.

Raw material volatility
Major raw materials used by STIL include cotton, polyester, viscose, etc. STIL procures raw material such as cotton fibre, polyester staple fibre (PSF) and viscose staple fibre (VSF). Cotton prices are volatile in nature driven by various factors like, area under cultivation, yield for the year, government regulation and pricing, etc. On the other hand, polyester being a derivative of crude oil is continuously affected by the movement in crude oil prices. STIL's raw material cost as a percentage of revenue was ~59% in FY21 (PY: ~59%). Any adverse movement in the raw material prices may put pressure on STIL's profitability margins, in case the rise in price cannot be recovered entirely through higher realizations.

Susceptible to volatility in forex rates
During FY21, STIL exported goods worth Rs.660 crore (~35% of gross sales). STIL being a net exporter is susceptible to the volatility in forex rates. Although, STIL hedges almost entire export at the time of booking the order, the ability of the company to successfully manage its foreign exchange exposure remains key monitorable.

Industry Outlook
Cotton and cotton yarn
Cotton production in India is estimated to remain stable y-o-y and stand at 6.1 million tonnes in the current cotton season (CS) October 2020 – September 2021 backed by higher yields. Cotton supply during CS 2020-21 is estimated to increase by 21.7% to 8.4 million tonnes. The domestic cotton demand is expected to grow by 32% to 5.6 million tonnes on account of a likely recovery in domestic cotton demand in the current season.
On an average, cotton yarn prices improved from Rs.212 per kg in April 2020 to Rs.255 per kg in March 2021 backed by better demand for cotton yarn in domestic and international markets and higher cotton prices. As a result, the difference or spread between cotton spun yarn and ginned cotton also witnessed sequential increase which is believed to have augured well for the cotton yarn spinners.
On a cumulative basis, cotton yarn production declined by 21.3% y-o-y to 2,918 thousand tonnes during April 2020-February 2021 mainly due to sharp decline of 53%-94% in the first 3 months of FY21 on account of Covid-19 disruptions. Thereafter, the

output fell by a slower 7.1% in July 2020 and decreased by a marginal 0.5%-1.5% in the months of August 2020, December 2020 and February 2021 and increased by 0.2%-7% in rest of the months during FY21 on account of better domestic demand and increase in exports of cotton yarn.

Manmade Fibre/ Yarn
The domestic MMF industry mainly comprises of two components i.e., polyester and viscose, which together accounts for about 95% (in volume terms). Under this, polyester accounts for about 80% while viscose accounts for the balance. Easing of various restrictions and vaccination program is expected to support domestic demand for MMF segment as well during FY22. In addition to this to improve MMF exports, the government announced Production Linked Incentive (PLI) scheme in November 2020 for MMF segment and technical textiles for Rs. 10,683 crore which will be spread over a period of 5 years. This is likely to encourage MMF exports from India going forward.

Liquidity analysis: Adequate
Liquidity of the company remains adequate marked by gross cash accruals of Rs.57.05 crore in Q1FY22 and is expected to generate Rs.167.36 crore in FY22. The company also has unencumbered cash balance of Rs.8.84 crore as on June 30, 2021. Against this, STIL has scheduled repayments of Rs.127.64 crore in FY22 out of which the company has repaid ~Rs.36 crore till July 31, 2021. STIL also has additional headroom available in the form of undrawn working capital lines with moderate average utilization of 55.41% for trailing 12 months ending May 2021.

Analytical Approach:
For arriving at the ratings, CARE has considered the consolidated financials of STIL owing to financial and operational linkages with the subsidiary and common management.

Applicable Criteria:
Criteria on assigning ‘outlook’ and ‘credit watch’ to Credit Ratings
CARE’s Policy on Default Recognition
Rating Methodology - Manufacturing Companies
Rating Methodology for Manmade Yarn Manufacturing
Rating Methodology for Cotton Textile Manufacturing
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology: Consolidation

About the Company
Sutlej Textiles and Industries Limited (STIL) was incorporated in 2005 out of a corporate restructuring exercise in which the textile divisions of Sutlej Industries Ltd and Damanganga Processors Ltd were demerged to create a single cohesive company. STIL was part of the erstwhile K. K. Birla Group and after the family division it came under Ms. Nandini Nopany. The company is currently managed by Mr. C.S. Nopany (Chairman), grandson of late K.K. Birla and son of Ms. Nandini Nopany. STIL is amongst India’s leading producers of dyed spun yarn and value added/specialty yarn. It also manufactures fabrics and home textiles. As on June 30, 2021; STIL’s spinning capacity was 420,384 spindles, Home Textile Capacity was at 9.6 million meters p.a. as on June 30, 2021. Its manufacturing facilities are located in Bhawanimandi (Rajasthan), Kathua (Jammu & Kashmir), Daheli (Gujarat) and Baddi (Himachal Pradesh). Further, during FY2017-18, STIL has Invested USD 4.5 Million (Rs.30.64 crore) in Wholly Owned Subsidiary in USA. STIL Acquired Design, Sales, and Distribution (DS&D) business along with brand of American Silk Mills LLC (ASM) based at Plains, Pennsylvania.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	Q1FY22 (UA)
Total operating income	2431.31	1954.30	590.51
PBILDT	184.75	138.95	75.90
PAT	27.70	-3.66	20.39
Overall gearing (times)	0.93	0.97	NA
Interest coverage (times)	4.04	2.89	6.20

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of 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	-	-	Jan 2029	746.08	CARE A; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	350.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC	-	-	-	45.00	CARE A1
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	250.00	CARE A; Stable / CARE A1
Commercial Paper-Commercial Paper (Standalone)	-	-	7-364 days	300.00	CARE A1

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	746.08	CARE A; Stable	-	1)CARE A; Stable (31-Dec-20)	1)CARE A+; Stable (03-Jan-20)	1)CARE A+; Stable (03-Dec-18) 2)CARE AA-; Stable (21-May-18)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	350.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (31-Dec-20)	1)CARE A+; Stable / CARE A1+ (03-Jan-20)	1)CARE A+; Stable / CARE A1+ (03-Dec-18) 2)CARE AA-; Stable / CARE A1+ (21-May-18)
3.	Non-fund-based - ST-BG/LC	ST	45.00	CARE A1	-	1)CARE A1 (31-Dec-20)	1)CARE A1+ (03-Jan-20)	1)CARE A1+ (03-Dec-18) 2)CARE A1+ (21-May-18)
4.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	250.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (31-Dec-20)	1)CARE A+; Stable / CARE A1+ (03-Jan-20)	1)CARE A+; Stable / CARE A1+ (03-Dec-18) 2)CARE AA-; Stable / CARE A1+ (21-May-18)

5.	Commercial Paper-Commercial Paper (Standalone)	ST	300.00	CARE A1	-	1)CARE A1 (31-Dec-20)	1)CARE A1+ (03-Jan-20)	1)CARE A1+ (03-Dec-18) 2)CARE A1+ (21-May-18)

Annexure-3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - LT/ ST-CC/Packing Credit	Simple
4.	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.*

Annexure 4: Bank Lender Details

Click here to view Bank Lender Details

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