

## Sanathan Textiles Limited

February 13, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	-	-	Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable ISSUER NOT COOPERATING*) and Withdrawn
Short Term Bank Facilities	-	-	Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE A4+; ISSUER NOT COOPERATING* (A Four Plus ISSUER NOT COOPERATING*) and Withdrawn

Details of instruments/facilities in Annexure-1

### Rationale and key rating drivers

CARE has reaffirmed the ratings with Issuer Not Cooperating (INC) status and withdrawn the outstanding ratings of 'CARE BB+ Issuer Not Cooperating; Stable/CARE A4+ Issuer Not Cooperating (Double B Plus/Outlook: Stable; Issuer Not Cooperating /A four Plus; Issuer Not Cooperating)' assigned to the bank facilities of Sanathan Textiles Limited (Erstwhile Sanathan Textiles Private Limited) with immediate effect based on No Objection Certificate from the lenders.

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

**Analytical approach:** Standalone

### Detailed description of the key rating drivers

At the time of last rating on August 30, 2022, the following were the rating strengths and weaknesses. Relevant sections have been updated based on FY22 financials.

### Key strengths

#### Experienced Management

Sanathan Textiles Pvt Ltd (STL) 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 STL through infusion of funds in past. Unsecured Loans from related parties as on 31-March-20 was Rs 24.80 cr.

#### Continuance in diversified product profile and improvement in scale of operations and stable profitability margins

STL 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. STL's scale of operations improved significantly by 66% YoY basis to Rs.3192.89 crore as on March 31, 2022 vis-à-vis Rs.1926.90 crore as on March 31, 2021. The improvement was supported by pent-up demand in textile industry during FY22. Further, the operating margin continues to remain comfortable at 17.31% as on March 31, 2022 (PY: 17.91%).

#### Improvement in overall gearing during FY22

STL's overall gearing improved to below unity during FY22. The improvement was on account of significant scheduled debt repayments made during the year.

#### Moderate Client Concentration Risk

The client concentration risk experienced by STL 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%).

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Key weaknesses

### Volatile Raw Material Prices and Foreign Exchange Fluctuation Risk

**Raw Material Prices:** The main raw material of STL is Purified terephthalic acid (PTA), mono-ethylene glycol (MEG), Polyester Chips and Partially Oriented Yarn (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:** STL 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. STL 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

STL 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

STL 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.

### Liquidity: Adequate

STL'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%. STL 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.

### Applicable Criteria:

[Policy in respect of Non-cooperation by issuer](#)  
[Policy on default recognition](#)  
[Financial Ratios – Non financial Sector](#)  
[Liquidity Analysis of Non-financial sector entities](#)  
[Rating Outlook and Credit Watch](#)  
[Short Term Instruments](#)  
[Cotton Textile](#)  
[Manufacturing Companies](#)  
[Policy on Withdrawal of Ratings](#)

### About the Company

Sanathan Textiles Limited (STL) 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)	31-03-2021 (A)	31-03-2022 (A)	9MFY23 (UA)
Total operating income	1,926.90	3,192.89	NA
PBILDT	345.16	552.62	NA
PAT	185.60	355.53	NA
Overall gearing (times)	0.86	0.38	NA
Interest coverage (times)	5.87	13.83	NA

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

**Covenants of rated instrument / facility:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Please refer Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	September 2028	0.00	Withdrawn
Non-fund-based - ST-Bank Guarantee		-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING * (30-Aug-22)	1)CARE BBB; Stable; ISSUER NOT COOPERATING * (02-Mar-22)	1)CARE BBB; Stable (05-Jan-21)	1)CARE BBB; Stable (06-Feb-20)

2	Non-fund-based - ST-Bank Guarantee	ST	-	-	1)CARE A4+; ISSUER NOT COOPERATING * (30-Aug-22)	1)CARE A3+; ISSUER NOT COOPERATING * (02-Mar-22)	1)CARE A3+ (05-Jan-21)	1)CARE A3+ (06-Feb-20)
3	Fund-based - LT-Cash Credit	LT	-	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING * (30-Aug-22)	1)CARE BBB; Stable; ISSUER NOT COOPERATING * (02-Mar-22)	1)CARE BBB; Stable (05-Jan-21)	1)CARE BBB; Stable (06-Feb-20)
4	Non-fund-based - ST-BG/LC	ST	-	-	1)CARE A4+; ISSUER NOT COOPERATING * (30-Aug-22)	1)CARE A3+; ISSUER NOT COOPERATING * (02-Mar-22)	1)CARE A3+ (05-Jan-21)	1)CARE A3+ (06-Feb-20)

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not applicable

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

Sr. No	Name of 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

**Annexure-5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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### About us:

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### Disclaimer:

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