Sanathan Textiles Private Limited

August 30, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	497.13	CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE BBB; Stable; (Triple B; Outlook: Stable)
Short Term Bank Facilities	85.00	CARE A4+; ISSUER NOT COOPERATING* (A Four Plus ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE A3+; (A Three Plus)
Total Bank Facilities	**582.13 (₹ Five Hundred Eighty-Two Crore and Thirteen Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. had, vide its press release dated March 02, 2022 placed the ratings of Sanathan Textiles Private Limited under the 'issuer not cooperating' category as the company had failed to provide information and pay the surveillance fees for rating exercise as agreed to in its Rating Agreement. Sanathan Textiles Private Limited continues to be non-cooperative. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on Sanathan Textiles Private Limited's bank facilities will now be denoted as **CARE BB+; Stable; ISSUER NOT COOPERATING* / CARE A4+; ISSUER NOT COOPERATING*.**

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

Detailed description of the key rating drivers

At the time of last rating on March 02, 2022, the following were the rating strengths and weaknesses:

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 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%).

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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(PY1.81x) 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

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

Manmade Yarn Manufacturing

Manufacturing Companies

Complexity Level of Rated Instruments

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)	31-03-2021 (A)	31-03-2022 (A)	Q1FY23
Total operating income	1,932.93	NA	NA
PBILDT	351.19	NA	NA
PAT	185.60	NA	NA
Overall gearing (times)	0.86	NA	NA
Interest coverage (times)	5.97	NA	NA

A: Audited; 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 covenants of the rated instruments/facilities is given in Annexure-3

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

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	September, 2028	347.13	CARE BB+; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantee		-	-	-	20.00	CARE A4+; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit		-	-	-	150.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC		-	-	-	65.00	CARE A4+; ISSUER NOT COOPERATING*

Annexure-2: Rating history for the 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	347.13	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	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	20.00	CARE A4+; ISSUER NOT COOPERATING*	-	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	150.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	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	65.00	CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE A3+; ISSUER NOT COOPERATING* (02-Mar-22)	1)CARE A3+ (05-Jan-21)	1)CARE A3+ (06-Feb-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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 HYPERLINK "https://www.careratings.com/Bankdetails.aspx?Id=mpUvQeP5QsJCQ1Skl65c8Q==" \o "PR Weblink11"click here

Note on complexity levels of the rated instruments: CARE Ratings 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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