Sanathan Textiles Private Limited

January 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating *	Rating Action
Long Term Bank Facilities	204.13	**CARE BBB; Stable (Triple B; Outlook; Stable)**	**Revised from CARE BBB- (Tripple B Minus)**
Short Term Bank Facilities	20.00	**CARE A3+ (A Three Plus)**	**Revised from CARE A3 (A Three)**
Total facilities	**224.13 (Rs. Two Hundred Twenty-Four Crore and Thirteen lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Sanathan Textiles Private Limited (STPL) factors in the improvement in the operational performance marked by growth in revenues and improvement in profit margins during FY17 (refers to the period from April 01 to September 30) along with completion of its ongoing capacity expansion. CARE notes that the company has no further debt funded capital expansion plans in medium term and thus capital structure is gradually expected to improve.

The ratings continue to derive strength from the experience of the promoters in the textile business and partially integrated nature of the operations.

The rating strengths are, however, constrained by the leveraged capital structure of the company, susceptibility of profitability to adverse movement in raw material prices/foreign exchange rate and competitive and fragmented nature of the textile industry.

The ability of the company to optimally utilize the expanded capacities, improve its profitability margin and capital structure remain the key rating sensitivities.

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.

Improved Operational Performance in FY17 and H1FY18

STPL's total operating income registered a yoy growth of 15% to Rs.1,553.25 crore in FY17. The growth in total operating income was primarily on account of 52% and 47% growth recorded respectively in PET Chips and Cotton Yarn sales. The sales of PTY and POY/FDY showed a decline of 4% and 16% respectively. Further, during H1FY18, STPL's total operating income grew by 19% on a yoy basis. STPL's PBLDT margins have remained on an increasing trend over last three years. The PBILDT margin improved from 10.19% in FY16 to 11.10% in FY17, however, the PBILDT margin declined from 12.40% in H1FY17 to 11.15% in H1FY18. Further, the PAT margin of STPL improved from 0.17% in FY16 to 1.78% in FY17, mainly led by improvement in PBILDT margins coupled with reduced interest cost as a result of scheduled repayment of term loan. STPL is predominantly a domestic player, as the domestic sales contributed approximately 81% to its gross sales.

Completion of the ongoing project

STPL is implementing a capacity expansion at its existing site, which is expected to increase its Polyster Textured Yarn (PTY) capacity to 1,00,000 TPA (Tonnes per annum) and FDY (Fully Drawn Yarn) capacity to 75,000TPA at a capital expenditure of Rs. 216.00 crore, of which Rs. 167.00 crore will be funded through fresh debt and the balance through internal accruals. As on December 19, 2017, the project is almost complete and the same is expected to commence operation in Q4FY18.Hence, the execution risk remains reduced.

Rating weaknesses:

High gearing level; albeit some improvement witnessed as at the end of FY17

STPL's financial risk profile is characterised by leveraged capital structure on account of aggressive debt funded capacity expansions undertaken over the past few years. However, led by accretion of profits, as well as scheduled repayment of term loan the overall gearing improved from 3.65x as on March 31, 2016 to 2.85x as on March 31, 2017. During the same period, Total debt/GCA deteriorated to 5.45x as on March 31, 2017 as against 9.27x as on March 31, 2016. Interest coverage ratio for FY17 improved to stood 2.93x in FY17 as against 2.17x in FY16.

Despite of the on-going debt funded capex, led by accretion to profit as well as scheduled repayment of existing term loan, the peak overall gearing is expected to reach 2.34x as at March 31, 2018 as against a overall gearing of 2.33x as at March 31, 2017. Further, with company having no further expansion plans in the medium term horizon the capital structure is expected to improve from FY19 onwards.

Volatile raw material prices and foreign exchange fluctuation risk

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. Hence, any adverse volatility in the raw material prices may affect the company's margins.

STPL is also exposed to foreign exchange fluctuation risk on account of part term debt in foreign currency.

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, presence of dominant and integrated players with better bargaining power limits the pricing flexibility of players operating in the segment.

Industry Outlook

MMF industry has been going through a lean phase for the last 5 fiscals. In FY17, factors such as sluggish demand, sharp rise in imports, rigid competition from cotton yarn, fall in realisations and temporary loss of production on account of demonetisation weighed down on the industry. However, the domestic economy is on a revival path and is expected to improve going forward. Therefore, in the short to medium term, CARE Ratings expects MMF consumption to remain relatively stable. While, with an improvement in global landscape, increased demand for technical textiles and constrained cotton availability in the long term, CARE expects polyester consumption to register a steady pick up***.*** Also, with GST rates coming down from 18% to 12% and increase in custom duties on various synthetic yarns and fibres, the industry is expected to remain competitive in the domestic as well the as the international markets vis-à-vis other countries.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[CARE's Methodology for Manufacturing Companies]
[Financial ratios - Non-Financial 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 and Cotton yarn. The manufacturing facility is located at Surangi, Silvassa and Dadra & Nagar Haveli. As on March

31, 2017, has an installed capacity of 86,400 Tonnes per annum (TPA) of PTY; 1,23,000 TPA of POY/FDY; 80,300TPA of PET Chips and 7,200 TPA (4,800 TPA) of cotton yarn spinning.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1,347.86	1,553.25
PBILDT	137.39	172.34
PAT	2.29	27.74
Overall gearing (times)	3.65	2.85
Interest coverage (times)	2.17	2.93

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable

Rating History for 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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	September 2028	123.88	CARE BBB; Stable
Fund-based - ST-Packing Credit in Foreign Currency	-	-	-	5.00	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	80.25	CARE BBB; Stable
Non-fund-based-Short Term	-	-	-	15.00	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 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-Term Loan	LT	123.88	CARE BBB; Stable	-	1)CARE BBB- (17-Nov-16)	1)CARE BBB- (06-Jan-16) 2)CARE BBB- (08-Apr-15)	-
2.	Fund-based - ST-Packing Credit in Foreign Currency	ST	5.00	CARE A3+	-	1)CARE A3 (17-Nov-16)	1)CARE A3 (06-Jan-16) 2)CARE A3 (08-Apr-15)	-
3.	Fund-based - LT-Cash Credit	LT	80.25	CARE BBB; Stable	-	1)CARE BBB- (17-Nov-16)	1)CARE BBB- (06-Jan-16) 2)CARE BBB- (08-Apr-15)	-
4.	Non-fund-based-Short Term	ST	15.00	CARE A3+	-	1)CARE A3 (17-Nov-16)	1)CARE A3 (06-Jan-16) 2)CARE A3 (08-Apr-15)	-

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