Sanathan Textiles Private Limited

February 06, 2020

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 Facilities	582.13 (Rupees 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 increasing scale of operations.
The ratings are however constrained by high gearing levels, susceptibility to fluctuations in raw material prices and foreign exchange rates and project implementation risk.

Key Rating Sensitivities

Positive Factors

- Improvement in debt coverage indicators as marked by decrease in overall gearing ratio to 1x or less.

Negative Factors

- Deterioration of profitability margins with PBILDT margin being less than 10%
- Deterioration of debt coverage indicators with overall gearing exceeding 3.00x
- Cost or time overrun in ingoing project

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

Diversified product profile
The company manufactures polyester yarn and cotton yarn which helps the company in mitigating risk related to a particular segment of yarn industry. Further, within polyester the company manufactures POY, PTY, FDY and industrial yarns.

Improving Operational Performance and increasing scale of operations
STPL's total income registered a 28.26% growth from Rs 1829 crore in FY18 to Rs 2346.30 crore in FY19. This can be attributed to the increase in sales realization and the growth in volumes. However, the PBILDT margin witnessed a decline from 12.04% in FY18 to 10.60% in FY19 on account of an increase in raw material costs, which was 71.42% of total income in FY19 vis-s-vis 69.43% of total income in FY18. STPL witnessed an increase in its scale of operations with the launch of its new product segment-Industrial yarn. The company also expects to increase its existing cotton capacity by 72,960 spindles in FY20.
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. However, led by accretion of profits to reserves as well as scheduled

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

repayment of term loan the overall gearing improved from 2.85x as on March 31st 2018 to 2.46x as on March 31st 2019. CARE notes that while the company may go for further debt-funded capital expansion in medium term, the capital structure is expected to remain stable at current levels on account of scheduled repayments of existing term debt and the accretion of profits to reserves.

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. Net loss incurred on foreign currency transaction during FY19 was Rs 8.18 crore vis-à-vis Rs.2.34 crore during FY18. As on March 31, 2019; out of term loan of Rs. 431.75 crore, Rs. 334.05 crore of debt is in foreign currency. The company also has export sales and import of raw material. During FY19 the company has exports sales of Rs 398.06 crore and import of Rs.9.35 crore.

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 player such as Reliance Industries Ltd, JBF Industries Ltd. etc. with better bargaining power limits the pricing flexibility of players operating in the segment.

Project risk

The company is to expanding its cotton spinning division by adding 72960 spindles, in order to produce multiple counts of cotton 20s, 40s, 60s etc. The production is expected to begin in FY21.The project is of Rs.244.20 crore to be funded by term loan of Rs.196 crore and balance through internal accruals. As of 31-Dec-2019, the total amount expended for the project was Rs 133.00 crore out of which STPL's contribution via internal accruals was Rs 38.62 crore and the remaining amount of Rs 94.38 crore has been financed via borrowings. The project is large as compared to existing cotton spinning capacity and the company's net worth. The successful completion and stabilistaion of the project remains key monitorable.

Industry outlook

The domestic MMF industry mainly comprises of two components i.e., polyester and viscose, which together accounts for about 94% (in volume terms). Under this, polyester accounts for about 77.5% while viscose accounts for the remaining share. MMF is primarily used to produce 100% non-cotton fabrics and blended fabrics, which are in turn used in readymade garments, home textiles and other industrial textiles. MMF production witnessed an increase of about 3.7% yo-y in FY19 after declining about 0.7% in FY18. Going forward, 100% blended & non-cotton yarn production is expected to witness a stable growth of about 2-4% to 1,710 – 1,740 million kgs on back of expectations of moderation in crude oil prices as well as supply constraint for substitute cotton in the domestic market.

Liquidity: Adequate

The Company procures PTA and MEG from Reliance Industries, IOCL and MCPL and in certain cases import also, in either cases, STPL procurement is against LC which it generally opens for 90 days. The PET Chips manufactured are sold to domestic customers on a credit period of 10-15 days. While, STPL provides open credit of around 30-60 days to its domestic customer for POY/FDY its exports are backed by LC. As on 30-Sep-2019,the margin money for the fund based and non fund based instruments amount to Rs 50.32 crore and the cash and bank balance amount to Rs.5.97 crore.

The current ratio is less than unity on account of high current maturities of term loan. The cash flow from operations as on 31-March-2019 was Rs 141.45 crore

The company has a repayment of Rs. 97.97 crore in FY20 and capex commitment of Rs.34 crore. The average utilization level for the cash credit facility is 50.57%.

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

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. The manufacturing facility is located at Surangi, Silvassa and Dadra & Nagar Haveli.

Brief Financials (Rs. crore)	FY18(A)*	FY19 (A)*
Total operating income	1829.10	2346.30
PBILDT	220.26	248.63
PAT	55.84	59.30
Overall gearing (times)	2.85	2.46
Interest coverage (times)	4.44	4.14

**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

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	-	-	Sept 2028	347.13	CARE BBB; Stable
Fund-based - ST-Packing Credit in Foreign Currency	-	-	-	5.00	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	150.00	CARE BBB; Stable
Non-fund-based-Short Term	-	-	-	80.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	347.13	CARE BBB; Stable	-	1)CARE BBB; Stable (11-Feb-19) 2)CARE BBB; Stable (29-Jun-18)	1)CARE BBB; Stable (05-Jan-18)	1)CARE BBB- (17-Nov-16)
2.	Fund-based - ST-Packing Credit in Foreign Currency	ST	5.00	CARE A3+	-	1)CARE A3+ (11-Feb-19) 2)CARE A3+ (29-Jun-18)	1)CARE A3+ (05-Jan-18)	1)CARE A3 (17-Nov-16)
3.	Fund-based - LT-Cash Credit	LT	150.00	CARE BBB; Stable	-	1)CARE BBB; Stable (11-Feb-19) 2)CARE BBB; Stable (29-Jun-18)	1)CARE BBB; Stable (05-Jan-18)	1)CARE BBB- (17-Nov-16)
4.	Non-fund-based-Short Term	ST	80.00	CARE A3+	-	1)CARE A3+ (11-Feb-19) 2)CARE A3+ (29-Jun-18)	1)CARE A3+ (05-Jan-18)	1)CARE A3 (17-Nov-16)

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name : Pulkit Agarwal
Group Head Contact no: 022-67543505
Group Head Email ID: pulkit.agarwal@careratings.com

Relationship Contact
Name: Ankur Sachdeva
Contact no: 9819698985
Email ID : ankur.sachdeva@careratings.com

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