

Sanathan Textiles Private Limited

February 11, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating	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 reaffirmation of 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 FY18 (refers to the period April 01, 2017 to March 31, 2018) along with completion of its ongoing capacity expansion.

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

The ability of the company to optimally utilize the expanded capacities and to improve its capital structure remains 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 decade 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 the Textile industry. Mr. Paresh Kumar V Dattani was instrumental in setting up and promoting business in new markets. The promoters have supported the operations of STPL through infusion of funds in the past and retention of profits in the business.

Improved Operational Performance in FY17 and FY18

STPL's operating income has grown at a CAGR of 24.2% during FY13-FY18 period led by capacity expansion spread over the years. STPL's total operating income registered a y-o-y growth of 17.68% to Rs.1,827.83 crore in FY18. The growth in total operating income was primarily on account of growth in realization. STPL's PBLDT margins have remained on an increasing trend over last three years. The PBILDT margin improved from 11.10% in FY17 to 11.95% in FY18 led by improved realisation. Further, the PAT margin of STPL improved from 1.78% in FY17 to 3.03% in FY18, mainly led by improvement in PBILDT margins coupled with reduced interest cost as a result of scheduled repayment of term loan. The half yearly revenues for FY19 have recorded a growth of ~41% over the previous corresponding period.

Completion of the ongoing project

STPL completed capacity expansion of Polyester Textured Yarn (PTY) and FDY (Fully Drawn Yarn) at its existing plant and the plant has commenced operation from January 01, 2018. As a result of afore said expansion, the capacity of PTY and FDY stands at 1,27,600 TPA (Tonnes per annum) and 73,000 TPA respectively and is in total synchronization with the backward integration polymerization manufacturing facilities of the company resulting in enhanced margin. The company has also commenced (new product line) production of Industrial Drawn Yarn of 7000 TPA. The total cost of the project was about Rs.240 crore funded by debt of Rs.167 crore and balance from internal accruals.

Key Rating Weaknesses

High gearing level

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. While the overall gearing increased marginally to 2.86x as on March 31, 2018 from 2.85x as on March 31, 2017 led by accretion of profits to reserves as well as scheduled repayment of existing

term loans, the same remains on the higher side along with debt equity ratio at 2.09x as on March 31, 2018. 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

The key raw materials of STPL are Purified terephthalic acid (PTA) and mono-ethylene glycol (MEG). These raw materials are derivatives of crude oil and their prices are dependent on movement of crude oil prices. Furthermore, the 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.

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 un-organised 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 players with better bargaining power limits the pricing flexibility of players operating in the segment.

Industry Outlook

MMF (Mad Made Fibre) industry has been going through a lean phase for the last 5 fiscals. In FY17 and FY18, 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. In the short to medium term, CARE Ratings expects MMF consumption to remain relatively sluggish. 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 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, Industrial yarn and Cotton yarn. The manufacturing facility is located at Surangi, Silvassa and Dadra & Nagar Haveli.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1553.25	1827.83
PBILDT	172.34	218.46
PAT	27.84	55.35
Overall gearing (times)*	2.85	2.86
Interest coverage (times)	2.93	4.41

A: Audited

*includes LC acceptances

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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About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	366.88	CARE BBB; Stable
Fund-based - ST-Packing Credit in Foreign Currency	-	-	-	5.00	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	130.25	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	366.88	CARE BBB; Stable	1)CARE BBB; Stable (29-Jun-18)	1)CARE BBB; Stable (05-Jan-18)	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+ (29-Jun-18)	1)CARE A3+ (05-Jan-18)	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	130.25	CARE BBB; Stable	1)CARE BBB; Stable (29-Jun-18)	1)CARE BBB; Stable (05-Jan-18)	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	80.00	CARE A3+	1)CARE A3+ (29-Jun-18)	1)CARE A3+ (05-Jan-18)	1)CARE A3 (17-Nov-16)	1)CARE A3 (06-Jan-16) 2)CARE A3 (08-Apr-15)

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