Sanathan Textiles Private Limited

June 29, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long-term Bank Facilities	497.13 (Enhanced from Rs.204.13 crore)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	85.00 (Enhanced from Rs.20.00 crore)	**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 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(UA) (refers to the period April 01 to March 31) 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 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 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 Vallabhdas 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.

Improved Operational Performance in FY17 and FY18(UA)

STPL's total operating income registered a y-o-y growth of 19% to Rs.1,845.46 crore in FY18 (UA). 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 11.80% in FY18 (UA) led by improved realisation. Further, the PAT margin of STPL improved from 1.78% in FY17 to 3.79% in FY18 (UA), mainly led by improvement in PBILDT margins coupled with reduced interest cost as a result of scheduled repayment of term loan.

Completion of the ongoing project

STPL completed capacity expansion of Polyster 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 73,000TPA respectively. 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. As a result of higher working capital borrowings owing to increased scale of operation as well as term loan for the recent capacity expansion the overall gearing deteriorated to 3.09x as on March 31, 2018 as against 2.85x as on March 31, 2017. During the same period, Total debt/GCA deteriorated to 5.89x as on March 31, 2018 as against 5.45x as on March 31, 2017. Lead by improved PBILDT and lower interest cost due to scheduled repayment, the Interest coverage ratio for FY18(UA) improved to 4.41x in FY18 as against 2.93x in FY17.With the 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 key raw materials 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. 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.
STPL is also exposed to foreign exchange fluctuation risk on account of part term debt in foreign currency as the same is un-hedged.

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, 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. 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. Strengthening of crude oil prices in the recent past is expected to have negative impact on the margins of companies in the MMF segment as they may have to absorb partially and pass on partially.

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.

Brief Financials (Rs. crore)	FY17 (A)	FY18(UA)
Total operating income	1,553.25	1,845.56
PBILDT	172.34	217.88
PAT	27.74	69.91
Overall gearing (times)	2.85	3.09
Interest coverage (times)	2.93	4.41

A: Audited; UA: Un-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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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	-	-	Sep 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 (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+ (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 (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+ (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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CIN - L67190MH1993PLC071691