

## Sanrhea Technical Textiles Limited

August 04, 2020

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long term/Short term Bank Facilities	8.30	<b>CARE BB-; Stable/CARE A4 (Double B Minus; Outlook; Stable/ A Four)</b>	LT rating revised from CARE BB; Stable (Double B; Outlook: Stable) and ST rating reaffirmed
Short term Bank Facilities	0.18	<b>CARE A4 (A Four)</b>	Reaffirmed
<b>Total</b>	<b>8.48</b> <b>(Rupees Eight Crore and Forty Eight Lakhs only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Sanrhea Technical Textiles Ltd (STTL) is mainly on account of net loss reported along with significant deterioration in its debt coverage indicators during FY20 (Audited – refers to period from April 1 to March 31). Further, ratings continue to remain constrained on account of moderate capital structure and stretched liquidity along with its presence in the fragmented nature of technical textile industry with high degree of competition. The ratings continue to derive strength from the experienced promoters, its established track record of operations and reputed clientele.

### Key Rating Sensitivities

#### Positive Factors

- Increase in scale of operations by 30% with a PAT margin of higher than 2% on a sustained basis
- Improvement in debt coverage indicators as marked by TDGCA of 6 years or lower

#### Negative Factors

- Continued net losses
- Decrease in scale of operations by 30%
- Deterioration in capital structure marked by overall gearing of 3 times or higher

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Net loss during FY20

During FY20, PBILDT margin has declined by 280 bps y-o-y to 4.73% as against 7.52% during FY19. Decline in PBILDT margin was mainly on account of increase in employee costs during the year. Consequent to a dip in PBILDT margin and a proportionate increase in depreciation and interest costs led by purchase of new textile looms during Q4FY19, STTL booked net losses to the tune of Rs.0.99 crore in FY20 against net profit of Rs.1.17 crore in FY19. Resultantly, Gross Cash Accruals (GCA) also declined significantly and stood thin at Rs.0.27 crore for FY20 as compared to Rs.1.92 crore during FY19.

##### Deteriorating debt coverage indicators

Debt coverage indicators deteriorated and stood weak during FY20, marked by modest interest coverage ratio at 1.21x as against 3.01x during FY19 due to lower PBILDT level. Also, total debt to GCA deteriorated and stood weak at 38.55 as on March 31, 2020 as against 5.74x as on March 31, 2019 led by decline in GCA level during the year.

##### Moderate scale of operations

During FY20, Total Operating Income (TOI) of the company continued to remain moderate, albeit declined by 25% and stood at Rs.34.38 crore as against Rs.46.13 crore during FY19 mainly on account of decline in demand from existing customers.

##### Moderate capital structure

As on March 31, 2020, the capital structure of STTL continued to remain moderate as marked by an overall gearing ratio stood at 1.83x as against 1.61x as on March 31, 2019. Marginal deterioration was mainly on account of decrease in tangible networth as on balance sheet date net losses booked during FY20.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

### Presence in highly fragmented and competitive cotton yarn industry

ASL operates in highly fragmented and unorganized market of the textile industry marked by large number of small sized players. The industry is characterized by low entry barrier due to minimal capital requirement and easy access to customers and supplier. Also, the presence of big sized players with established marketing & distribution network results into intense competition in the industry.

### Key Rating Strengths

#### Experienced promoters with established track record of operations and presence of reputed clientele

Mr Tushar Patel has experience of more than two decades in fabric industry. He is engaged with STTL from its incorporation. He handles overall operations of STTL. Other directors also hold moderate experience in same line of business. STTL is in operations from the year 1983. It has long standing relations with the suppliers and customers. The company imports raw material mainly from China, Turkey and Germany. STTL has association with reputed clientele for more than a decade.

#### Liquidity analysis: Stretched

During FY20, liquidity position remained stretched as marked by current ratio at 1.05 times as on March 31, 2020 as against 1.14 times as on March 31, 2019. During FY20, working capital cycle elongated to 116 days as against 85 days during FY19 on account of higher collection period and inventory days. Average utilization of its working capital facilities also remained high at 90% during past 12 months period ended June 2020. GCA level remained low at Rs.0.27 crore during FY20 as against term debt obligations of Rs.0.40 crore arising during FY21 thus necessitating support from the promoter. The company has availed moratorium for its term loan principal and interest repayment obligations from March, 2020-August, 2020 under COVID-19 relief measures, which is expected to provide cushion in near term. However, net cash flow from operating activities turned positive at Rs.5.30 crore for FY20 as against negative cash flow of Rs.0.32 crore in FY19 owing to conversion of trade receivables along with increase in creditors as on balance sheet date. Cash and bank balance stood at Rs.0.31 crore as on March 31, 2020 as against Rs.0.03 crore as on March 31, 2019.

**Analytical approach:** Standalone

#### Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis-Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Cotton Yarn Industry](#)

#### About the company

Gandhinagar (Gujarat) based STTL was incorporated in June 1983 and named as of "Kruti Marketing Limited" and later renamed as "Mahendra Polycot Limited". In April 1997, entity was named as Sanrhea Technical Textile Limited (STTL) and got listed on platform of Bombay Stock Exchange. STTL is engaged in manufacturing of technical fabrics namely dipped chafer fabric, liner fabric, belting fabrics and various types of nylons and polyesters. These products are used in tyre industry, conveyer belts, rubber vulcanizing industry, RFL dipping plants, etc. STTL is an ISO 9001:2015 certified company. The company has 44 projectile looms with an installed capacity of 160 tons per month based on type of fabric manufactured from installed looms as on March 31, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	46.13	34.38
PBILDT	3.47	1.63
PAT	1.17	-0.99
Overall gearing (times)	1.61	1.83
Interest coverage (times)	3.01	1.21

A: Audited

As per provisional Q1FY21 results (refers to the period from April 01 to June 30), STTL has registered TOI of Rs.7.19 crore.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (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/ ST-Cash Credit	-	-	-	8.30	CARE BB-; Stable / CARE A4
Non-fund-based - ST-Bank Guarantees	-	-	-	0.18	CARE A4

**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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	8.30	CARE BB-; Stable / CARE A4	-	1)CARE BB; Stable / CARE A4 (01-Aug-19)	1)CARE B+; Stable / CARE A4 (03-Dec-18) 2)CARE B+; Stable / CARE A4 (22-Aug-18) 3)CARE B; Stable / CARE A4; ISSUER NOT COOPERATING* (11-Jun-18)	1)CARE B; Stable / CARE A4; ISSUER NOT COOPERATING* (18-Apr-17)
2.	Non-fund-based - ST-Bank Guarantees	ST	0.18	CARE A4	-	1)CARE A4 (01-Aug-19)	1)CARE A4 (03-Dec-18) 2)CARE A4 (22-Aug-18) 3)CARE A4; ISSUER NOT COOPERATING* (11-Jun-18)	1)CARE A4; ISSUER NOT COOPERATING* (18-Apr-17)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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