Supertex Industries Limited

August 19, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long term Bank Facilities	11.05	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Long term/Short term Bank Facilities	8.50	CARE BB-; Stable/CARE A4 (Double B Minus; Outlook: Stable/A Four)	Reaffirmed
Proposed Long Term Bank facility	0.45	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Total Facilities	**20.00 (Rs. Twenty Crore only)**		

Details of instruments/facilities in Annexure I

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Supertex Industries Limited (SIL) continues to be constrained by modest scale of operations with low profit margins, weak debt coverage indicators, moderate liquidity position and working capital intensive nature of operations. The ratings further continue to be constrained by supplier concentration risk with foreign exchange fluctuation risk and susceptibility of profit margins due to volatility in the prices of raw materials.

The ratings however, continue to derive strength from highly experienced promoters, long track record of operations and comfortable capital structure.

The ability of SIL to increase its scale of operations and improvement in profit margins while maintaining its capital structure along with efficient management of working capital cycle are the key rating sensitivities.

Detailed description of Key rating drivers

Key rating Weakness

Modest scale of operations: The scale of operations of SIL has deteoriated by 16% y-o-y from Rs.114.18 crore in FY18 to Rs. 96.29 crore in FY19 owing to reduction in sales from trading activity (from 30% of the total sales in FY18 to 10% of the total sales in FY19)due to increase in cost due to implementation of GST.. However, overall scale of operations stood modest with networth base of Rs.28.23 crore as on March 31, 2019.

Low profit margins: SIL's PBILDT margin stood moderate and has shown increasing trend but remained in the range of 3.02% to 3.80% in past 3 years (FY17-19). However, PBILDT margin has improved marginally and stood at 3.80% during FY19 (vis-à-vis 3.30% during FY18) on account of increased realization in the manufacturing segment (which constituted 92% of sales in FY19 as against 75% in FY18).However, with low PBILDT margin coupled with high depreciation & interest costs, the PAT margin also stood low and net loss of Rs. 0.13 Crore in FY19 (as against net profit of Rs. 0.62 Crore during FY18) mainly on account of deferred tax assets of Rs.1.18 Crore in FY19

Weak Debt coverage indicators: SIL's debt coverage indicators marked by total debt to GCA has deteriorated and stood at 12.35 times in FY19 mainly due to lower cash accruals and further the interest coverage ratio has improved from 1.70 times in FY18 to 1.74 times in FY19 on account of savings in the interest expenses.

Working capital intensive nature of operations: The operations of SIL are working capital intensive in nature on account of funds are being blocked primarily in receivables due to liberal credit period offered to its customers in the light of intense competition. Further, the company maintains relatively low level of inventory due to easy availability of the raw material.

Moderate liquidity position: SIL liquidity position marked by the average working capital utilization in the last seven months ended June 2019 stood high at ~95%. Whereas the investment in net working capital as a percentage of total capital employed stood at 72.66% as on March 31, 2019 (vis-à-vis 74.75% as on March 31, 2018). SIL net cash flow from operating activities stood positive at Rs.1.81crore in FY19. On the other hand, the current ratio and quick ratio stood moderately comfortable at 1.58 times and 1.36 times respectively as on March 31, 2019 (vis-à-vis 1.32 times and 1.12 times respectively as on March 31, 2018. Thus, the ability of the company to improve the liquidity position by efficiently managing the operating cycle would be critical from the credit perspective.

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

Susceptibility of profit margins due to volatility in the prices of raw material:
The main raw material of SIL is textured yarn and POY (Partially Oriented Yarn). These raw materials are derivate of crude oil and its prices are dependent on movement of crude oil prices. Further, due to low bargaining power with large raw material suppliers and limited ability to pass on the prices, any adverse price fluctuation affects profitability of the company.

Supplier concentration with foreign exchange fluctuation risk
SIL is exposed to significant supplier concentration risk, since more than 75% of its annual purchases are contributed by top 5 suppliers. SIL is also exposed to significant foreign exchange fluctuation risk, given the high contribution of exports to the net sales, which stood at 47% in FY19. Moreover, the company does not deprive any benefits from natural hedge in absence of the imports. However, the company enjoys forward contract facility from the bank; thereby serving as a hedge to the said foreign exchange exposure and mitigate the forex risk to an extent.

Key rating Strengths
Long track record of the operations with highly experienced promoters: SIL has established more than three decades of track record in textile processing industry in which the company has maintained long term relations with its customers and suppliers. SIL is managed by experienced directors who have average experience of around three decades in the business of polyester yarns manufacturing & fabric trading activities majority of which has been gained by them in the due course of their association with this company. The extensive experience of the promoters enables them to establish strong marketing connects and production process excellence for SIL.

Comfortable capital structure: SIL's capital structure remained comfortable although it has deteriorated marginally mainly on account of increase in overall borrowings mainly due to additional term loan availed to part fund the expansion undertaken coupled with increase in working capital requirement (addition of Rs. 4.93 Cr secured OD from PNB during FY19). The overall gearing remained below unity during past three balance sheet dates ended March 31, 2019.

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
Supertex Industries was incorporated on July 18, 1986 under the name of Super Tex-O-Twist Private Limited, as a private limited company later on converted to deemed public limited company on July 1, 1990 and converted into a public limited company on March 3, 1992. The company is currently being managed by Mishra family. SIL engaged in the manufacturing of draw warped and sized yarn beams of polyester and nylon which contributes around to 90% of total revenue during FY19 and remaining 10% from trading of textile fabrics. It is mainly engaged in texturizing, twisting, draw-warping and sizing of polyester filament yarn (PFY) with plant located at Silvassa in Dadra and Nagar Haveli and Dharampur in Gujarat. Its draw warping, sizing and beaming divisions are located at Dharampur and manufacturing of texturized twisted fancy yarns division located at Silvassa. SIL has its head office located at Mumbai and its sales office is located at Surat.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Prov.)
Total operating income	114.18	96.29
PBILDT	3.77	3.66
PAT	0.62	-0.13
Overall gearing (times)	0.60	0.71
Interest coverage (times)	1.70	1.74

A: Audited; Prov.: Provisional

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-Cash Credit	-	-	-	9.00	CARE BB-; Stable
Non-fund-based - LT/ ST-Letter of credit	-	-	-	5.00	CARE BB-; Stable / CARE A4
Fund-based - LT-Proposed fund based limits	-	-	-	0.45	CARE BB-; Stable
Fund-based - LT/ ST-EPC/PSC	-	-	-	3.50	CARE BB-; Stable / CARE A4
Fund-based - LT-Term Loan	-	-	March 2024	2.05	CARE BB-; Stable

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-Cash Credit	LT	9.00	CARE BB-; Stable	-	1)CARE BB-; Stable (22-Nov-18)	-	-
2.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	5.00	CARE BB-; Stable / CARE A4	-	1)CARE BB-; Stable / CARE A4 (22-Nov-18)	-	-
3.	Fund-based - LT-Proposed fund based limits	LT	0.45	CARE BB-; Stable	-	1)CARE BB-; Stable (22-Nov-18)	-	-
4.	Fund-based - LT/ ST-EPC/PSC	LT/ST	3.50	CARE BB-; Stable / CARE A4	-	1)CARE BB-; Stable / CARE A4 (22-Nov-18)	-	-
5.	Fund-based - LT-Term Loan	LT	2.05	CARE BB-; Stable	-	-	-	-

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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