

Supertex Industries Limited
 September 24, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	11.31 (reduced from 11.50)	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
Total Facilities	19.81 (Rs. Nineteen Crore and Eighty-One Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

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

The rating however continues to derive strength from long track record of operations with experienced promoters and comfortable capital structure.

Rating SensitivitiesPositive Factors

- Increase in the scale of operations with a total operating income exceeding Rs.150 crore on a sustained basis
- Improvement in debt coverage indicators with interest coverage ratio exceeding 3x and total debt to gross cash accruals reaching below 5x on a sustained basis
- Improvement in the liquidity position with collection period reaching below 90 days and utilization of the working capital limits reaching below 80% on a sustained basis

Negative Factors

- Deterioration of profitability margins with PBILDT margin being less than 3%

Detailed description of the key rating drivers**Key Rating Weaknesses**

Modest scale of operations: The scale of operations of SIL increased with the total operating income (TOI) having grown by 31.00% y-o-y to Rs.126.25 crore in FY20 from Rs.96.29 crore in FY19 on the back of increase in volumes sold led by higher demand in the export market coupled with increase in the business of trading textile fabrics from 10% of TOI in FY19 to 17% of TOI in FY20 due to higher demand from existing customers. Nevertheless, the overall scale of operations continues to remain modest. Furthermore, during Q1FY21, the company posted lower TOI of Rs.1.87 crore (vis-à-vis Rs.18.77 crore in Q1FY20) due to nationwide lockdown imposed by the government during COVID-19 pandemic situation.

Low profit margins: PBILDT margin of SIL stood low at 3.50% in FY20, given the yarns processing nature of operations. Moreover, the same has been fluctuating in the range of 3.02% to 3.81% over FY17-FY20 owing to fluctuating raw material prices which are primarily linked with crude oil and variation in trading activities. Further PBILDT margin of the company has declined to 3.50% in FY20 vis-à-vis 3.81% in FY19 on account of proportionate increase in the cost of traded goods from 12.85% in FY19 to 16.38% in FY20 which fetches relatively lower margins. Moreover during FY20 realization from manufacturing of yarn has also reduced marginally. Despite of marginal deterioration in the PBILDT margin & increase in interest cost & depreciation expenses, the PAT margin has improved and stood at 0.79% in FY20 as against net loss incurred in FY19.

Weak Debt coverage indicators: SIL's debt coverage indicators stood weak marked by total debt to GCA has deteriorated and stood at 13.30 x in FY20 vis-à-vis 12.30x in FY19. Further the interest coverage ratio has also deteriorated marginally to 1.62x

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

in FY20 vis-à-vis 1.75x in FY19. The same was attributable due to increase in the debt level and thereby interest cost during FY20.

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 owing to higher credit period extended to the customers on the back of established relationship with them coupled with intense competition in the market, since the company is required to extend a credit period of over 100 days to its customers, which is also prevalent to the textiles industry. However, the collection period has improved to 115 days in FY20 (vis-à-vis 148 days in FY19). Further, the company maintains relatively low level of inventory due to easy availability of the raw material. On the other hand it receives credit period of around 60-90 days which led to average creditors' period of 60 days in FY20 (vis-à-vis 83 days in FY19). All taken collectively, the operating cycle stood high at 76 days in FY20 (vis-à-vis 97 days in FY19).

Customer & Supplier concentration with foreign exchange fluctuation risk: SIL is exposed to significant supplier & customer concentration risk, since more than 50% of sales cater to one customer and around 77% 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 60% in FY20. 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.

Susceptibility of profit margins due to volatility in the prices of raw material: The key raw material of SIL is Polyester textured filament yarn (PTY), Sizing Yarn and Partially Oriented Yarn (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. Accordingly, the profitability margins of the company are susceptible to fluctuation in raw material prices. With limited ability to pass on the increase in raw material costs in a competitive operating spectrum, any substantial increase in raw material costs would affect the company's profitability.

Presence in competitive and fragmented industry: SIL operates in a highly competitive and fragmented textile industry. The company witnesses intense competition from both the other organized and unorganized players domestically. This fragmented and highly competitive industry results into price competition thereby posing a threat to the profit margins of the companies operating in the industry.

Liquidity position: - Stretched

The liquidity position remained stretched marked by tightly matched accruals to repay its debt obligations. Its average cash credit limit utilization remained high at 95% during past 12 months ended August 2020. Further, free cash and bank balance remained low at Rs.0.35 crore as on March 31, 2020 (vis-à-vis Rs. 0.47 crore as on March 31, 2019). The current ratio and quick ratio stood moderate at 1.28x and 1.15x respectively as on March 31, 2020 (vis-à-vis 1.40x and 1.21x respectively as on March 31, 2019). Further cash flow from operating remained positive at 2.34 crore in FY20 (vis-à-vis Rs. 1.26 crore in FY19). SIL has availed moratorium in debt servicing along with emergency credit line under RBI COVID-19 regulatory package from Axis Bank Limited & Punjab National and the same has been approved by the banker.

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 to 0.77x as on March 31, 2020 (vis-à-vis 0.71x as on March 31, 2019) mainly on account of increase in overall borrowings mainly due to addition of unsecured loan coupled with higher utilization of working capital limit as on balance sheet date.

Analytical approach: Standalone

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 Manmade Yarn Manufacturing 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 is engaged in processing of synthetic yarns and trading of grey and polyester fabric. It is mainly engaged in texturizing, twisting, draw-warping and sizing of polyester filament yarn (PFY located at Silvassa in Dadra and Nagar Haveli and Dharampur in Gujarat. Its draw warping, sizing and beaming divisions are located at Dharampur and it manufactures texturized twisted fancy yarns at Silvassa. SIL has its head office located at Mumbai and its sales office is located at Surat.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	96.29	126.25
PBILDT	3.67	4.42
PAT	-0.12	0.99
Overall gearing (times)	0.71	0.77
Interest coverage (times)	1.75	1.62

A: Audited

Current year performance: During Q1FY20, the company has achieved TOI of Rs.1.87 crore and incurred net loss of Rs.1.02 crore.

Status of non-cooperation with previous CRA: Nil

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	1.86	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 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-Cash Credit	LT	9.00	CARE BB-; Stable	-	1)CARE BB-; Stable (19-Aug-19)	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 (19-Aug-19)	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 (19-Aug-19)	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 (19-Aug-19)	1)CARE BB-; Stable / CARE A4 (22-Nov-18)	-
5.	Fund-based - LT-Term Loan	LT	1.86	CARE BB-; Stable	-	1)CARE BB-; Stable (19-Aug-19)	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Proposed fund based limits	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Fund-based - LT/ ST-EPC/PSC	Simple
5.	Non-fund-based - LT/ ST-Letter of credit	Simple

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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