

Surat Textile Mills Limited

March 13, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	5.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	25.00	CARE A3 (A Three)	Reaffirmed
Total	30.00 [Rupees Thirty Crore only]		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in rating assigned to the bank facilities of Surat Textile Mills Limited (STML) continues to derive strength on account of experienced promoters in textile business, moderate scale of operations which are partially integrated, comfortable gearing and liquidity position.

The ratings are however constrained by susceptibility of profitability to fluctuations in raw material prices, presence in a highly competitive and fragmented textile industry which translates into limited pricing power as well as deteriorating credit profile of its group company, Garden Silk Mills Limited (GSML, rated CARE D).

STML's ability to maintain its scale of operations amidst intense competition continues to remain a key rating sensitivity. Going forward, any substantial increase in raw material prices which may impact profitability, substantial increase in gearing levels which may significantly increase finance costs will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters in the textile business: STML belongs to the Garden Group that has vast experience in the polyester intermediates and textiles industry. At the helm of its management are the Managing Director, Mr. M. R. Momaya, and CFO Mr. Yogesh Papaiya, who have an established track record of over 3 decades in the textile industry and have helped STML to develop strong business relations with its stakeholders

Modest scale of operations: STML is engaged in manufacturing of PET Chips and Partially Oriented Yarn (POY) having a manufacturing capacity of 24,500 MTPA and 5,000 MTPA respectively. STML derives majority of its revenue through supply of PET chips to larger textiles manufacturers who utilise PET chips as a raw material for further processing to manufacture manmade fibres. STML's 5,000 MTPA yarn manufacturing unit has resumed production in FY18. Resumption of production along with improved sales volume led to 44.58% increase in Total Operating Income to Rs. 203.16 Crore in FY18 from Rs. 140.52 Crore in FY17. However, given weak demand, yarn manufacturing operations were suspended in March 2018. Going forward, ability of STML to maintain its scale of operations in the intensely competitive market is a key rating sensitivity.

Comfortable gearing lead to comfortable debt coverage indicators: Gearing continues to remain comfortable due to minimal leverage and moderate net worth. Overall gearing stood at 0.14 times in FY18 (0.02 times in FY17). The slight increase in gearing level was on account of relatively higher utilisation of cash credit utilisation as on March 31, 2018 which stood at Rs.1.5 Crore as compared to nil in the previous period. Given comfortable gearing levels, debt coverage indicators continue to remain healthy with interest coverage ratio at 16.31 times in FY18 (38.11 times in FY17). However, significant increase in leverage which may impact gearing levels and ultimately debt service capability is a key rating sensitivity

Comfortable Liquidity Position: STML has liquidity in the form of unencumbered liquid investments amounting to Rs.55 Crore. STML's liquidity position is further enhanced by comfortable collection period (8 days); however on account of high inventory period, the operating cycle stood high at 77 days in FY18. STML maintains high level of inventory to avoid price fluctuation resulting in high operating cycle albeit of comfortable collection period.

Key Rating Weaknesses

Deteriorating credit profile of group company, GSML: GSML has been incurring cash losses on account of weak demand for its products resulting in sub-optimal capacity utilization coupled with higher cost of raw materials. The overall financial

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

performance of the company has subdued leading to negative PAT. Further one of the lenders of GSML has initiated insolvency proceedings against GSML.

Presence in a highly competitive and fragmented textile industry: STML operates in a highly commoditized and fragmented Man Made Fibre (MMF) industry. The company faces intense competition from other organized and unorganized players due to large number of chips and yarn manufacturers. The dumping of Chinese fabric imports into Indian markets also affects the demand for locally produced fabric and therefore yarn and chips as well. Under the circumstances chips and yarn manufacturers have been compelled to price their products at very low margins to protect utilization level of production as well.

Liquidity:

The liquidity position of the company continues to be comfortable on account of significant liquid investments in the form of mutual funds which stood at Rs.55 Crore as on February 2019. Further utilisation of cash credit limit is minimal which provides additional liquidity comfort.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

About the Company

Incorporated in 1945, Surat Textile Mills Limited (STML) is part of the Garden Group (rated CARE D) is engaged in manufacturing of polyester chips (with an installed capacity of 24,500 Metric Tonnes Per Annum- [MTPA]), partially oriented yarn (POY) and polyester filament yarn (PFY) (with an installed capacity of 5000 MTPA). STML's manufacturing facilities are located in Jolwa village in Palsana Taluka of Surat. STML procures raw material [mainly purified terephthalic acid (PTA), mono-ethylene glycol (MEG)] largely from the domestic suppliers sells its products mainly in the domestic market.

Brief Financials (Rs. crore)	FY17 (A)	FY18(A)
Total operating income	140.52	203.16
PBILDT	14.66	15.93
PAT	17.13	8.07
Overall gearing (times)	0.02	0.14
Interest coverage (times)	38.11	16.31

A: Audited (Classified as per CARE Standards)

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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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-Cash Credit	-	-	-	5.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	25.00	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-Cash Credit	LT	5.00	CARE BBB-; Stable	1)CARE BBB-; Stable (02-Apr-18)	1)CARE BBB-; Stable (24-Apr-17)	-	1)CARE BBB- (10-Feb-16)
2.	Non-fund-based - ST-BG/LC	ST	25.00	CARE A3	1)CARE A3 (02-Apr-18)	1)CARE A3 (24-Apr-17)	-	1)CARE A3 (10-Feb-16)

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