Sutlej Textiles & Industries Limited

January 3, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Fund Based-LT-Term Loan	688.34 (reduced from 739.50)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Fund Based- LT/ST-CC/ EPC/PCFC	600.00	**CARE A+; Stable/A1+ (Single A Plus; Outlook: Stable/A One Plus)**	
Non-Fund Based-ST-LC/BG	45.00	**CARE A1+ (A One Plus)**	
Total	**1333.34 (Rs. One thousand three hundred thirty three and thirty four lakh only)**		
Commercial Paper Issue*	300.00 (Rs. Three hundred crore only)	**CARE A1+ (A One Plus)**	**Reaffirmed**

**Carved out of working capital limits*
Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of Sutlej Textiles and Industries Limited (STIL) continue to derive strength from strong business profile being amongst India's well established players in the value added dyed spun yarn/specialty yarn segment and experienced management in the Textile industry (especially spinning segment). The ratings also factors in moderate debt coverage metrics and comfortable capital structure.
These ratings strengths are however tempered by declining trend in PBILDT margins leading to moderation in debt coverage indicators, continued losses in home textile business, financial support to group companies, susceptibility to fluctuation in raw material/product prices and fluctuation in foreign exchange imparting volatility to profitability and cyclical & competitive nature of the industry.

Positive Factors

- Turnaround in the home textile business as envisaged within stipulated timelines
- Improvement in the operating margins to 12-14% on a sustained basis

Negative Factors

- Higher than envisaged debt levels due to funding of going capex and/or higher working capital requirements leading to deterioration of capital structure to 1.25x.
- Delays in commissioning of the green fibre plant resulting in lower than envisaged cash accruals.
- Any delays in repatriation of investments from Avadh Sugar & Energy Limited and any further support to group companies

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Management in Textile industry: Sutlej Textiles and Industries Limited (STIL) was part of the erstwhile K.K Birla Group which was incorporated in 1932. In 2011 after the family division it came under Ms Nandini Nopany faction. Mr C.S. Nopany, grandson of late Mr K.K. Birla and son of Ms Nandini Nopany is the Chairman of company. STIL is led by a team of experienced professionals led by Mr S K Khandelia (President & CEO) and Mr. Updeep Singh (Dy. CEO) both having more than 25 years of experience in Textile industry.

Strong business profile: STIL is amongst India's leading producers of dyed spun yarn and value added/speciality yarn which includes man-made, cotton, blended, dyed, cotton melange yarns, etc. Besides yarns, it also manufactures fabrics and home

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

textiles. As on Sep 30, 2019, STIL's spinning capacity stood at 420,840 spindles as against 418,680 spindles in March 31, 2018. Home Textile capacity continued to remain at about at 9.6 million meters p.a.
The yarn segment continued to account for about 95% of total sales in FY19. Further, STIL's range of products enables it to maintain its position as one of the leading players in the sub-industry catering to a large customer base which is well diversified STIL sells its products both domestically as well as exports it across the globe with major countries being Turkey and Bangladesh.

Declining trend in profitability margins, albeit increase in operating income: STIL reported a moderate revenue growth of 4.82% to Rs. 2,632 crore in FY19 as against Rs. 2,511 crore in FY18. The growth in revenue was primarily on account of 11.34% increase in revenues from the man-made yarn division. PBILDT margin has remained on the declining trend over last few years led by sluggish demand, increase in competition and volatility in raw material prices. During FY19, STIL's PBILDT margin declined to 8.76% from 10.93% in FY18. The decline was primarily attributable to i) reduction in export incentives from October 01, 2018 ii) volatility in raw material prices especially polyester staple fibre and forex rates and iii) sluggish demand. Subsequently, PAT margin remain subdued at 2.11% as against 2.21%.

Moderation in debt coverage ratios; albeit improvement in capital structure: STIL's financial risk profile is characterised by moderate capital structure and debt coverage ratios. Debt coverage indicators such as total debt to GCA and interest coverage ratio deteriorated to 5.56 times and 4.08 times respectively as on March 31, 2019.
Overall gearing continued to be moderate and marginally improved to 0.99 times as on March 31, as against 1.17 times as on March 31, 2018 on account of accretion to reserves, scheduled debt repayment and lower working capital requirement. Going ahead, it is expected that overall gearing will remain under stress; albeit remain moderate on account of fresh debt to be taken for the company's capex plan. Any deterioration in the capital structure remains critical from credit perspective. Further, the company's financial risk profile has deteriorated on account of significant reduction in market capitalisation.

Key Rating Weaknesses

Execution of capex as envisaged, a key rating monitorable: Setting up of polyester staple fibre plant by recycling of pet bottles (Green Fibre plant) is estimated to have total capacity of 120mtpd at an estimated capital outlay of around Rs. 189 crore (funding through mix of debt and internal accruals). The plant is coming near its existing plant in Baddi, HP and is expected to be completed by Q1FY21. As on October 2019, STIL has incurred Rs. 63.50 crore towards the project. Post the commissioning of the plant, the raw material availability and input costs are expected to come down. Any delays or cost overruns remains critical from credit perspective.

Financial support to sugar companies: STIL supports couple of sugar companies in the form of non-convertible cumulative redeemable preference shares of Rs.50.38 crore. STIL has received a dividend of Rs 19.33 crore in FY2017-18 from these companies as the sugar companies have done well in last 1-2 years. The management has indicated that there may not be any further support to these sugar companies and has already repatriated Rs. ~25 crore in FY19 and the balance will be repatriated in Q4FY20.

Home textile division continues to be a drag: STIL's home textile division continues to drag the company's overall profitability. The division posted a loss of Rs. 10.63 crore in H1FY20 as against a loss of Rs. 30.67 crore and Rs. 5.80 crore in FY19 and FY18 respectively.
The management have undertaken certain initiatives to turnaround the division in FY21 which will aid in generating higher revenues and making the business profitable.
The ability of the management to turnaround the home textile division as envisaged remains critical from credit perspective.

Cyclical and fragmented industry: STIL operates in a cyclical and fragmented textile yarn industry marked by organised as well as unorganised players. Intense competition in the industry limits the pricing abilities of the players in the industry. However, the risk is partly mitigated as STIL is among a few exclusive spinners in India for specialty yarns such as modal, lycra, tencil and other value-added yarns in the country apart from being one of the prominent manufacturers of dyed cotton blended/mélange yarn in the country.

Raw material volatility: Major raw materials used by STIL include cotton, polyester, viscose, etc. STIL procures raw material such as cotton fibre, polyester staple fibre (PSF) and viscose staple fibre (VSF). Cotton prices are volatile in nature driven by various factors like, area under cultivation, yield for the year, government regulation and pricing, etc. On the other hand, polyester being a derivative of crude oil is continuously affected by the movement in crude oil prices.
However the raw material volatility risk is mitigated to certain extent as it largely follows order base production policy and due to STIL's leadership position in the market which helps it to pass on increase in raw material costs to its customers to some extent.

Susceptible to volatility forex rates: During FY19, STIL exported goods worth Rs. 911 crore (~35% of gross sales). STIL being a net exporter is susceptible to the volatility in forex rates. Although, STIL hedges almost entire export at the time of booking the order, the ability of the company to successfully manage its foreign exchange exposure remains key monitorable.

Industry Outlook

India's cotton production is likely to witness a double-digit growth of about 16% in CS 2019-20 with production at 6.6 billion kg during the year on back of favourable monsoon as well as increased MSP that led to increased cotton crop sowing. For CS20, the acreage under cotton is estimated to have marginally increased by about 1.3% to 12.8 million hectares.

Cotton prices (S-6 & J34) during the year remained largely stable witnessing an increase of about 2-4% on back of increased MSP despite weak demand after remaining range bound during domestic CS18 at about Rs 118 per kg on account of subdued demand from the spinners. Also, low and uneven rainfall along with loss of crop due to pink bollworm attacks in Maharashtra and Karnataka kept the supply in the domestic market tight during the year. In FY19, however, exports demand witnessed an improvement led by demand from Bangladesh, Vietnam, Pakistan and Sri Lanka. Exports to China remained strong as well.

Liquidity Analysis: Adequate

STIL has adequate liquidity in the form of undrawn working capital lines. Moderate average utilisation of 58.38% for trailing 12 months Oct 2019 and envisaged GCA of Rs. 169.84 crore is sufficient to service scheduled debt repayments and interest of Rs. 102.70 crore in FY20, of which the company has repaid Rs. 49.11 crore till Sep 30, 2019. However, the company's liquidity profile in the medium term is expected to remain in check on account of capital outlay of Rs. ~250 crore, of which Rs. ~105 crore is expected to be funded through internal accruals and balance through fresh debt.

Analytical Approach

For arriving at the ratings, CARE has considered the consolidated financials of STIL owing to financial and operational linkages with the subsidiary and common management. The list of entities consolidated is provided in Annexure – III.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Manufacturing Companies
Rating Methodology for Cotton Textile Manufacturing
Financial ratios – Non-Financial Sector
Rating Methodology: Consolidation and Factoring Linkages in Ratings

About the Company

Sutlej Textiles and Industries Limited (STIL) was incorporated in 2005 out of a corporate restructuring exercise in which the textile divisions of Sutlej Industries Ltd and Damanganga Processors Ltd were demerged to create a single cohesive company. STIL was part of the erstwhile K. K. Birla Group and after the family division it came under Ms Nandini Nopany. The company is currently managed by Mr C.S. Nopany (Chairman), grandson of late Mr. K.K. Birla and son of Ms. Nandini Nopany.

STIL is amongst India's leading producers of dyed spun yarn and value added/specialty yarn. It also manufactures fabrics and home textiles. As on March 31, 2019; STIL's spinning capacity was 420,840 spindles (vis-à-vis 418,680 spindles in FY2017-18), Home Textile Capacity was at 9.6 million meters p.a. as on March 19 (vis-à-vis 9.6 mmpa in FY17). Its manufacturing facilities are located in Bhawanimandi (Rajasthan), Kathua (Jammu & Kashmir), Daheli (Gujarat) and Baddi (Himachal Pradesh).

Further, during FY2017-18, STIL has Invested USD 4.5 Million (Rs. 30.64 crore) in Wholly Owned Subsidiary in USA. STIL Acquired Design, Sales, and Distribution (DS&D) business along with brand of American Silk Mills LLC (ASM) based at Plains, Pennsylvania.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2511.27	2632.19
PBILDT	274.38	230.60
PAT	113.36	58.26
Overall gearing (times)	1.17	0.98
Interest coverage (times)	4.64	4.08

A: 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
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	-	-	Mar 2029	688.34	CARE A+; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	350.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	45.00	CARE A1+
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	250.00	CARE A+; Stable / CARE A1+
Commercial Paper	-	-	7 days to 364 days	300.00	CARE A1+

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-Term Loan	LT	688.34	CARE A+; Stable	-	1)CARE A+; Stable (03-Dec-18) 2)CARE AA-; Stable (21-May-18)	1)CARE AA; Stable (11-Sep-17)	1)CARE AA (12-Jul-16)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	350.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (03-Dec-18) 2)CARE AA-; Stable / CARE A1+ (21-May-18)	1)CARE AA; Stable / CARE A1+ (11-Sep-17)	1)CARE AA / CARE A1+ (12-Jul-16)
3.	Non-fund-based - ST-BG/LC	ST	45.00	CARE A1+	-	1)CARE A1+ (03-Dec-18) 2)CARE A1+ (21-May-18)	1)CARE A1+ (11-Sep-17)	1)CARE A1+ (12-Jul-16)
4.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	250.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (03-Dec-18) 2)CARE AA-; Stable / CARE A1+ (21-May-18)	1)CARE AA; Stable / CARE A1+ (11-Sep-17)	1)CARE AA / CARE A1+ (12-Jul-16)
5.	Commercial Paper	ST	300.00	CARE A1+	-	1)CARE A1+	1)CARE A1+	1)CARE A1+

						(03-Dec-18) 2)CARE A1+ (21-May-18)	(11-Sep-17)	(12-Jul-16)

Annexure-3: Name of the companies consolidated with STIL

Name of the Company	Relationship	Ownership (%) March 31, 2019
Sutlej Holdings Inc.	Subsidiary	100.00%
American Silk Mills	Step Down Subsidiary	100.00%

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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