Sutlej Textiles and Industries Limited

December 03, 2018

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Fund Based-LT-Term Loan	739.50 (reduced from 809.82)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)**
Fund Based- LT/ST-CC/ EPC/PCFC	600.00	**CARE A+; Stable/ CARE A1+ (Single A Plus; Outlook: Stable/A One Plus)**	**Revised from CARE AA-; Stable/ CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)**
Non-Fund Based-ST-LC/BG	45.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**1384.50 (Rs. Thirteen Hundred Eighty Four crore and Fifty lakh only)**		
Commercial Paper	300.00	**CARE A1+ (A One Plus)**	**Reaffirmed**

Detailed Rationale and Key Rating Drivers

The revision in long term rating of STIL reflects decline in profitability along with operating cash-flows over last couple of years especially in FY18 (refers to period from April 1, 2017 to March 31, 2018) and H1FY19 leading to weakening of its debt coverage metrics and overall financial profile. Over the last two years, textile industry has faced severe market disruptions such as demonization, GST implementation, volatility in raw material prices, etc. This has resulted into subdued cash-flow from operations and consequent adverse impact on the overall financial profile.

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 factor in moderate debt coverage metrics.

These ratings strengths are however tempered by continuous capex incurred every year and working capital intensive nature of operations. Furthermore, the ratings also factor in susceptibility to fluctuation in raw material/product prices and fluctuation in foreign exchange imparting volatility to profitability and cyclical & competitive and fragmented nature of the industry.

Any further debt-funded capex/merger/acquisition or unrelated diversification adversely impacting debt coverage metrics remains a key rating monitorable. Furthermore, any meaningful increase in working capital debt or further decline in PBILDT margin from current levels remains key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong business profile: STIL is amongst India's well established 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 home textiles. STIL's spinning capacity rose to 4,18,680 spindles as on March 31, 2018 vis-à-vis 416,616 spindles as on March 31, 2017. Home Textile capacity stands at 9.6 million meters p.a. Out of the total spindle capacity of 418,680 spindles, 144,290 spindles are dedicated towards value added Cotton Melange capacity. On operational front due to focus on technology up-gradation and debottlenecking it continues to have spindle utilization of 95%. Yarn segment continued to account for about 95% of total sales. 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.

Benefits available to STIL's Chenab Textile Mill plant (Kathua, Jammu & Kashmir): STIL's largest manufacturing plant is situated at Chenab Textile Mill plant located at Kathua, Jammu & Kashmir (J&K), which constitutes nearly ~50% of spindleage capacity of STIL. This plant derives benefits from J&K Government in terms of low power cost (Rs.3.35 per unit) which is much lower compared to other states, which increases the cost competitiveness of its products.

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

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 (daughter of Mr K.K Birla). Mr C.S. Nopany, son of Ms Nandini Nopany is the executive chairman of the company. STIL is led by a team of experienced professionals led by Mr S K Khandelia (President & CEO) having over more than 40 years' experience in Textile industry.

Declining trend in PBILDT margin, albeit improved operating income: During FY2017-18, STIL's PBILDT margin declined to 10.93% in FY2017-18 from 13.79% in FY2016-17. 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 iii) increase in power & fuel charges, iv) appreciation of rupee against USD, etc. Led by decline in PBILDT margin coupled with increase in interest cost the PAT margin declined to 4.51% in FY2017-18 as against 6.99% in FY2016-17. However, STIL's total operating income increased to Rs.2,511 crore in FY2017-18 showing a yoy growth of 11%. The increase in revenue was primarily on account of 8% increase in yarn volumes at 99,935 MT in FY2017-18 (vis-à-vis 92,255 MT in FY2016-17). However, as a result of suppressed demand in the domestic and export market (also affected by appreciating rupee against USD), yarn realization remained flat at Rs.217 per kg as against Rs.215 per kg in FY2016-17. Further, the PBILDT margin during H1FY2018-19 was at 9.85% as compared to 12.66% in H1FY2017-18.

Moderation in debt coverage indicators in FY18: Total debt to GCA (adjusted) marginally worsened to 4.88 times as on March 31, 2018 from 4.46 times as on March 31, 2017 due to reduced gross cash accruals. Besides, total debt/cash flow from operations (CFO) worsened to 6.76x as on March 31, 2018 vis-à-vis 5.82x as on March 31, 2017 due to reduced cash profits and increased receivables and other current assets. Total debt stood at 1053 crore (incl. long term borrowing of Rs.606 crore) as on March 31, 2018 vis-à-vis Rs.1042 crore (incl. long term borrowing of Rs.604 crore) as on March 31, 2018. The PBILDT interest coverage declined to 4.19 times in H1FY2018-19 as compared to 5.17 times in H1FY2017-18.

Capex updates: During FY2017-18, STIL has invested around Rs.90.60 crore during FY2017-18 towards technology upgradation and debottlenecking, etc. to improve in efficiency and sustaining plant utilization. The company is currently implementing polyester staple fibre plant of 120 tonnes/day by recycling of pet bottles.The project is expected to be completed in Q1FY 2020-21. As on September 30, 2018, STIL has not incurred any cost towards the recycling facility and also debt for the same is yet to be tied up. The company is estimated to benefit in terms of both quality and cost once the project is completed. However, given the initial stage of project the same is exposed to project risk.

Liquidity:
Average working capital limits continue to remain moderately utilized at ~75% (maximum is 79%) during the past 12 months ended August 31, 2018 indicating moderate cushion. Cash flow from operations remained positive for last four fiscals ended FY18. Free cash flow turned negative during FY16 and FY17 due to acquisition of BTM and capex, however it posted marginal positive free cash flow in FY18. STIL has scheduled repayment of Rs.334 crore over next three years. It is expected to post gross cash accruals of ~Rs.180 crore in FY19; albeit at lower levels compared to earlier years. Due to recent increase working capital requirements on account substantial volatility in crude oil prices and depreciation of rupee, could result into moderation in liquidity position.

Key rating weaknesses;
Elongation in working capital cycle: Working capital cycle remained nearly stable at 116 days in FY2017-18 vis-à-vis 116 days in FY2016-17. However it has worsened compared to the earlier years where it used to be less than 100 days. Average Inventory period reduced to 87 days in FY2017-18 (FY2016-17: 92 days) although in absolute amount it stood at Rs.514.16 crore as on March 31, 2018 vis-à-vis 592.92. Also average collection period increased to 43 days in FY2017-18 (FY2016-17: 37 days) consequent to increase in receivables by 38% to Rs.335.05 crore. On the back drop of increasing trend in raw material prices, working capital is estimated to stretch further.

Financial support to sugar companies: 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. Further the same is expected to be redeemed in two equal tranches in FY2018-19 and FY2019-20. Furthermore, the company has received Rs.4.14 crore in the form of dividends from its investment in sugar companies in H1FY2018-19.

Raw material volatility: Major raw materials consumed by the company include polyester staple fibre (PSF), raw cotton fibre, and viscose staple fibre (VSF). During FY2017-18, there has been an enormous increase in prices of polyester staple fibre (PSF) which the company has not been able to pass it on to its end consumers. Besides prices of viscose and cotton has also increased in FY2017-18. Hence this has impacted profitability margin in FY2017-18. However this 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 manage things effectively.

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 and other value-added yarns in the country.

Foreign exchange fluctuation risk: During FY2017-18, STIL exported goods worth ~Rs.725 Cr (~30% of gross sales) vis-à-vis Rs.574 Cr in FY2016-17 (~26%) whereas it imports constitute less than 2% of total raw material consumed. Hence it is an exporter. Further, STIL hedges almost entire export at the time of booking the order. Ability of the company to successfully manage its foreign exchange exposure remains a key rating monitorable.

Analytical approach - Consolidated
For arriving at the ratings, CARE has considered the audited consolidated financial statements published in the annual report for FY18. STIL has one subsidiary as per these audited financial statements. Consolidated financials has been considered owing to financial and operational linkages parent and its subsidiary, cash-flow fungibility and common management.

Reason for change in analytical approach: Up to end of FY2016-17, for arriving at the ratings CARE used to consider standalone financials of STIL, as the same had no subsidiaries. However, during FY2017-18, STIL has set up a wholly owned subsidiary in USA viz. Sutlej Holdings Inc., which in turn has a wholly owned subsidiary viz. American Silk Mills, LLC. The acquired business of ASM is housed in American Silk Mills, LLC.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios - Non-Financial Sector
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Rating Methodology for Cotton Yarn Industry

Company Background
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/speciality yarn. It also manufactures fabrics and home textiles. As on March 31, 2018; STIL's spinning capacity was 4,18,680 spindles (vis-à-vis 416,616 spindles in FY2016-17), Home Textile Capacity was at 9.6 million meters p.a. (vis-à-vis 9.6 mmpa in FY2016-17). 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. STIL is listed on BSE as well as NSE. It had a promoter holding of 63.90% as on March 31, 2018 and market capitalisation of ~Rs.723.30 crore as on November 28, 2018.

Brief Financials (Rs. crore)	**FY17 (A)**	**FY18 (A)**
Total operating income	2260.20	2511.27
PBILDT	311.61	274.38
PAT	157.94	113.36
Overall gearing (times)	1.28	1.17
Interest coverage (times)	6.82	4.64

Status of non-cooperation with previous CRA: Not Applicable

Any Other information: Not Applicable

Rating History (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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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	-	-	Dec 2025	739.50	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	-	-	-	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 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-Term Loan	LT	739.50	CARE A+; Stable	1)CARE AA-; Stable (21-May-18)	1)CARE AA; Stable (11-Sep-17)	1)CARE AA (12-Jul-16)	1)CARE AA- (15-Jul-15)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	350.00	CARE A+; Stable / CARE A1+	1)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)	1)CARE AA- / CARE A1+ (15-Jul-15)
3.	Non-fund-based - ST-BG/LC	ST	45.00	CARE A1+	1)CARE A1+ (21-May-18)	1)CARE A1+ (11-Sep-17)	1)CARE A1+ (12-Jul-16)	1)CARE A1+ (15-Jul-15)
4.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	250.00	CARE A+; Stable / CARE A1+	1)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)	1)CARE AA- / CARE A1+ (15-Jul-15)
5.	Commercial Paper	ST	300.00	CARE A1+	1)CARE A1+ (21-May-18)	1)CARE A1+ (11-Sep-17)	1)CARE A1+ (12-Jul-16)	-

CARE Ratings
Professional Risk Opinion

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