November 17, 2022

Sudarshan Jeans Private Limited: Long-term rating upgraded to [ICRA]A(Stable), short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ CC	32.00	30.00	[ICRA]A(Stable); Upgraded from [ICRA]A-(Stable)
Long-term – Fund-based/ TL	136.38	54.01	[ICRA]A(Stable); Upgraded from [ICRA]A-(Stable)
Long-term – Unallocated	23.12	0.00	
Long-term/ Short-term – Non-fund Based	3.50	0.00	
Long-term/ Short-term – Unallocated	0.00	9.99	[ICRA]A(Stable)/[ICRA]A2+; long-term rating upgraded from [ICRA]A-(Stable), short-term rating reaffirmed
Total	**195.00**	**94.00**	

**Instrument details are provided in Annexure-1*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view on the credit profile of the three entities in the Sudarshan Group (referred to as the Sudarshan Group or the Group), namely Partap Industries Limited (PIL), Sudarshan Auto Industries Private Limited (SAIPL) and Sudarshan Jeans Private Limited (SJPL) (refer the Analytical Approach for details).

The upgrade in the long-term rating reflects likely significant reduction in the Group's debt in the near term, which was also witnessed in FY2022. The Group's total external long-term debt reduced to Rs. 124.4 crore as on March 31, 2022 from Rs. 216.4 crore as on March 31, 2021, and the same is expected to reduce further in FY2023. The debt reduction in FY2022 was followed by pre-payments and increase in the Group's scale and cashflows owing to favourable domestic demand growth prospects in terms of volumes as well as realisations in FY2022. The Group's turnover grew by ~50% in FY2022 along with improved profitability, leading to an overall improvement in the Group's financial risk profile. ICRA expects that the Group's credit profile would continue to remain comfortable with low gearing, comfortable liquidity and debt coverage indicators. The liquidity of the Group continues to draw comfort from the capital subsidy received/receivable against investments made towards its manufacturing units located in Maharashtra. An improvement in profitability in the recent past was supported by higher sales from the terry towel segment, which is more margin-accretive than the denim and cotton yarn. While the profitability and scale are expected to moderate in FY2023 on account of a correction in realisations and demand slowdown, the Group's debt coverage metrics would remain comfortable, given the significant reduction in debt and healthy cash flows. The ratings continue to derive comfort from the extensive experience of promoters in the textile industry and an established relationship with the customers. The Group's diversified business (denim fabric, towel and cotton yarn) and geographical presence also support the ratings. Besides, the ratings draw comfort from the Group's backward integration within the value chain, which provides an edge over its competitors and allows the company to efficiently manage its cost structure.

The ratings are, however, constrained by the inherent cyclicality associated with the textile sector and the vulnerability of its profitability to fluctuations in raw material prices (mainly cotton) and fluctuations in forex rates. ICRA also notes that any downward revision in the financial incentives may adversely impact the profit margins. During the past years, the Group reduced its dependence on denim, which witnessed a slowdown in demand as well as pressure on profitability. ICRA notes that any sharp decline in denim realisations would adversely impact the Group's profitability. As per ICRA's estimates, while the turnover of the Group is likely to moderate in FY2023 on account of rising inflationary concerns, the profit margins would also witness some moderation in FY2023 owing to the resultant slowdown in consumer discretionary spending and uncertainty over economic growth outlook. Nonetheless, adequate cash flows and reduction in the Group's total debt would provide comfort to its liquidity and debt coverage indicators, going forward. While the capital structure and coverage indicators would remain modest at present, ICRA notes that any major capex in the future, funded largely by fresh debt, could strain the capital structure and hence, would remain a key credit monitorable.

The Stable outlook emphasises ICRA's opinion that the company will be able to maintain its satisfactory profitability metrics, aided by its well-integrated operation, stable domestic demand in the near-to-medium term and reduction in total debt, leading to a healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the textile industry – Owned by Punjab-based Mr. Sudarshan Paul Bansal and his family, the promoters have extensive experience in the textile industry. Mr. Bansal established the first company of the Group, Partap Industries Limited (PIL), in 1991. In 2009, he floated another company named Sudarshan Jeans Private Limited. Gradually, the Group expanded its spinning capacity to 43,050 MTPA, denim capacity to ~70 MMPA and terry towel capacity to ~23,000 MTPA. In October 2015, the Group incorporated Sudarshan Auto Industries Private Limited, which manufactures tyres under its own brand and on a job-work basis. The manufacturing plants of the Group are situated at Rajpura (Punjab), Kolhapur (Maharashtra), Indapur (Maharashtra) and Amravati (Maharashtra).

Established relationship with the customers – The Group has an established network of distributors spread across the northern, central and eastern parts of India. Over the years, the Group has developed a strong client base in the domestic and export markets of the US, which has been providing repeat business.

Integrated nature of operations and diversified revenue streams – The denim fabric and towel plants of the Group are backward integrated with in-house spinning capability, which caters to ~70.0% of the captive demand of raw materials. A diversified business and geographical presence have helped buffer the impact of demand slowdown in the denim segment over the years. The Group has presence across cotton yarn, denim and towel businesses, which is likely to aid in revenue growth, going forward. In FY2022, the towel segment contributed around 46% to the revenue, followed by cotton yarn at 32% and denim at 20%.

Healthy financial risk profile – The overall business performance in FY2022 was better than the previous year as witnessed by an increase in the consolidated revenue to Rs. 1,236.2 crore from Rs. 819.2 crore in FY2021, registering a YoY growth of 50.9%. The Group capitalised on the momentum of an upcycle in the textile industry in FY2022 and reported a PAT of around Rs. 98.0 crore against to Rs. 15.2 crore in FY2021, supported by favourable demand and increased realisations. In FY2022, units were running at around 100% capacity due to healthy demand for terry towel and cotton yarn, due to which some job work was also outsourced. Further, with a reduction in external long-term debt, overall debt coverage indicators have improved. Also, ICRA expects that Sudarshan Auto Industries Private Limited would turn into a profit-making company after incurring losses till FY2022 as the company has started manufacturing tyres under its own brand along with a job work.

Credit challenges

Demand slowdown likely to impact business growth – ICRA estimates a moderation in the revenue and profitability in FY2023 due to demand slowdown owing to rising inflationary concerns, the resultant slowdown in consumer discretionary spending, and uncertainty over economic growth outlook as visible from the current trends. Nonetheless, healthy cash accruals and significant reduction in total debt would provide comfort to the overall financials of the Group including debt coverage indicators and liquidity, going forward.

Vulnerability of profitability to volatility in cotton yarn prices and fluctuations in forex rates – The Group manufactures cotton yarn, denim fabric and towels. Cotton constitutes the major portion of the total cost of production. Thus, it remains exposed to fluctuation in the prices of cotton owing to various agro-climatic reasons and Government policies (through minimum support price), which result in volatile profitability. As exports account for around 15-20% of the Group's turnover, the Group remains exposed to the foreign currency fluctuation risks due to the unhedged exposure.

Cyclicality in the denim industry – The denim industry has witnessed significant cyclicality in the past, with periods of excess market capacity and tight demand-supply situations. With several capacity additions across the industry, driven by increased denim demand and lucrative Government incentives, denim supply has exceeded the demand growth at present, exposing the Group to an over-supply situation in the domestic market. Nevertheless, the Group has reduced its dependence on denim in FY2022, which provides comfort to an extent.

Vulnerability of profitability to changes in export incentive structure – The Government of India (GoI) extends various export incentives to encourage exporters, which support the operating profit margins. Thus, any change in incentives extended by the GoI to exporters or in the regulatory policies of importing countries can adversely impact the profitability and cash flows.

Environmental and Social Risks

Environmental considerations: The Group is heavily exposed to climatic-change risks given that the supply of its key input, cotton, is a water-intensive crop responsible for soil degradation, which has adverse implications from a sustainability perspective of a critical natural resource. Also, the textile industry pollutes air and water through various activities like usage of pesticides and activities like dyeing, bleaching etc. While these environmental factors naturally pose supply-side risks, the demand side risks are largely protected given cotton's large applicability as a natural fibre in the textile sector. From a long-term perspective, however, the focus on growing organic cotton that needs less water could partially mitigate the environmental risks that the Group remains exposed to. While the Group faces these risks, the adverse effects are partially mitigated as the Group treats one million litre water everyday with 0% discharge and both the terry towel and denim units are ISO 9001:2015 certified.

Social considerations: In general, the exposure of textile-based entities to social risks is not material. As textile units are labour intensive, the key source of social risk is how human capital aspects are managed. Over the years, the Group has demonstrated a track record of managing its labour requirements well, both in terms of their sufficiency as well as their safety and overall well-being. The shortage of skilled workers or protests/conflicts with local communities could also affect the operations/growth plan and remains a key concern.

Liquidity position: Adequate

The Group's liquidity would remain adequate with low utilisation of its working capital limits, healthy free cash flows and limited capital expenditure plans in the near term. As on September 30, 2022, the company had a subsidy receivable of around Rs. 54.0 crore against the long-term debt of Rs. 85.0 crore (after netting off the prepaid amount) with an EMI of around Rs. 1.81 crore. The Group has scheduled repayments of ~Rs. 18.6 crore (after netting off the prepaid amount) in H2 FY2023, which are expected to be serviced comfortably through internal accruals. The liquidity of the Group continues to draw comfort from the capital subsidy received/receivable against investments made towards its manufacturing units located in Maharashtra.

Rating Sensitivities

Positive factors – ICRA could upgrade the ratings if the Group demonstrates a significant improvement in scale, profitability and liquidity while maintaining comfortable debt coverage metrics on a sustained basis.

Negative factors – Pressure on the Group's ratings could arise if there is a sharp decline in revenue and profitability as well as weakening in its liquidity position on a sustained basis. Any unanticipated large debt-funded capex that may put pressure on the cash flow or Total debt/OPBDITA above 1.8 times, on a sustained basis, could result in ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating approach – Consolidation Textiles (Fabric Making) Textiles (Spinning)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of the three entities in the Sudarshan Group, given the strong operational, financial and managerial linkages within these entities. The details have been shown in Annexure II.

About the Group

Owned by Punjab-based Mr. Sudarshan Paul Bansal and his family, the Sudarshan Group comprises Partap Industries Limited, Sudarshan Jeans Private Limited and Sudarshan Auto Industries Private Limited. Mr. Bansal, along with his family members, holds 100% equity stake in PIL. Further, PIL holds a 40.32% equity stake in SJPL, while the remaining stake is with the Bansal family. Both PIL and SJPL manufacture cotton yarn, denim fabric and towels. Further, PIL holds a 99.5% equity stake in SAIPL, which manufactures rubber tyres under its own brand and on a job-work basis.

About the company

Sudarshan Jeans Private Limited (SJPL) is a part of Sudarshan Group. Incorporated in 2009, the company commenced its first denim fabric manufacturing unit in Kolhapur. The plant was initially set up with a manufacturing capacity of 12 MMPA, which was increased to 54 MMPA in 2012. Further, it undertook a step towards backward integration in the supply-chain and commenced a spinning unit in Kolhapur in 2013 with a capacity of 14,000 MTPA. In 2016, SJPL undertook a greenfield project in Indapur for manufacturing of open-ended yarn and terry towel. The company also put up a new spun yarn manufacturing plant in Indapur with 25,000 spindles. Further in FY2020, it had set up a composite unit (comprising a ring frame spinning and knitting unit) at Amravati with a capacity of 8,750 MTPA of cotton yarn and knitted fabric.

Key financial indicators

	SJPL		Consolidated	
	FY2021	FY2022	FY2021	FY2022
Operating income (Rs. crore)	602.0	982.9	819.2	1,236.2
PAT (Rs. crore)	6.6	70.5	15.2	98.1
OPBDIT/OI	12.1%	14.1%	14.2%	16.1%
PAT/OI	1.1%	7.2%	1.9%	7.9%
Total outside liabilities/Tangible net worth (times)	1.9	0.7	1.2	0.5
Total debt/OPBDIT (times)	2.3	0.7	1.9	0.7
Interest coverage (times)	4.0	13.7	4.6	14.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;
Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2022 (Rs. crore)	Date and Rating in	Date & Rating			
						FY2022		FY2021	FY2020
					Nov 17, 2022	Oct 7, 2021	Jul 5, 2021	-	Jan 30, 2020
1	Working capital limit	Long-term	30.00	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Negative)
2	Term Loans	Long-term	54.01	54.01	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Negative)
3	Unallocated	Long-term	-	-	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-	-
4	Bank Guarantee	Long-term/ Short-term	-	-	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	[ICRA]BBB+ (Negative)/ [ICRA]A2
5	Unallocated	Long-term/ Short-term	9.99	NA	[ICRA]A (Stable)/ [ICRA]A2+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term fund-based working capital/ Cash Credit	Simple
Long-term/ Short-term – Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working capital limit	NA	NA	NA	30.00	[ICRA]A(Stable)
NA	Term Loan	FY2017	NA	FY2025	6.70	[ICRA]A(Stable)
NA	Term Loan	FY2020	NA	FY2026	33.25	[ICRA]A(Stable)
NA	Term Loan	FY2021	NA	FY2028	7.00	[ICRA]A(Stable)
NA	Term Loan	FY2020	NA	FY2025	7.06	[ICRA]A(Stable)
NA	Unallocated	NA	NA	NA	9.99	[ICRA]A(Stable)/[ICRA]A2+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Partap Industries Limited (PIL)	100.00%	Full Consolidation
Sudarshan Auto Industries Private Limited (SAIPL)	99.50%	Full Consolidation
Sudarshan Jeans Private Limited (SJPL)	40.32%	Full Consolidation

Source: *Company; 100% stake in PIL held by the promoters. PIL holds 40.32% stake in SJPL, rest held directly by the promoters. PIL holds 99.5% stake in SAIPL, rest held directly by the promoters*

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