

December 31, 2024

Shabnam Petrofils Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based – Term loans	17.81	17.81	[ICRA]BBB- (Stable); reaffirmed
Long Term – Fund Based – Working Capital Facilities	11.50	11.50	[ICRA]BBB- (Stable); reaffirmed
Long Term – Interchangeable	(6.30)	(6.30)	[ICRA]BBB- (Stable); reaffirmed
Long Term – Interchangeable	-	(8.79)	[ICRA]BBB- (Stable); reaffirmed
Short Term – Interchangeable	(5.00)	(5.00)	[ICRA]A3; reaffirmed
Long Term/Short Term – Non Fund-Based Facilities	9.79	9.79	[ICRA]BBB- (Stable)/ [ICRA]A3; reaffirmed
Total	39.10	39.10	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation factors in the expectation of Shabnam Petrofils Private Limited's (SPPL) stable financial performance in FY2025, led by steady revenue growth and the absence of any major debt-funded capital expenditure (capex) in the near-to-medium term. The ratings also factor in the extensive experience of SPPL's promoters in the textile industry, its well-diversified customer base and the favourable location of the company's manufacturing facility in Surat, a textile hub in Gujarat, leading to easy access to raw materials and proximity to downstream processing units. The company's financial profile remains satisfactory, underpinned by the healthy capital structure and low working capital intensity of operations. ICRA notes that the company has successfully commenced the capacity expansion for value added products in FY2024, which is likely to benefit the company in improving its operating margins. However, its ability to generate commensurate returns from the same will remain critical for the credit metrics going forward.

The ratings, however, remain constrained by SPPL's modest scale of operations with revenues of Rs. 324.8 crore in FY2024. Its operating profit margins (OPM) also remain thin due to intense competition in the textile industry, limiting pricing flexibility. The margins additionally remain susceptible to price fluctuations in primary raw material prices, which, in turn, are pegged to crude oil prices. The business is also facing pressure from duty-free imports from countries such as Vietnam, exerting pressure on the realisation levels.

The Stable outlook on the long-term rating reflects ICRA's opinion that SPPL's debt coverage indicators will remain satisfactory, led by steady revenue growth and the absence of any major debt-funded capex in the near term.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in textile industry, proximity to textile hub an advantage – SPPL was established in 2002 by the members of the Waghbakriwala and the Memon families. The promoters have about 20 years of experience in the textile industry and have developed established relationships with customers, mainly wholesalers and fabric manufacturers. The company benefits from its proximity to the downstream textile processing units.

Diversified customer base – SPPL’s customer base remains diversified, with the top five customers contributing to 4% of the total revenues in FY2024 (11% in FY2023). It mainly sells polyester yarn to traders who sell the same to manufacturers of texturised yarn and greige fabric. The greige fabrics manufactured by the company are sold mostly to traders.

Comfortable capital structure and financial profile– SPPL’s capital structure remained comfortable with a gearing of 0.7 times as on March 31, 2024, due to healthy accretion to reserves. As on March 31, 2024, the company’s total debt stood at Rs. 44.5 crore (Rs. 43.8 crore as on March 31, 2023), comprising term loans of Rs. 32.0 crore, unsecured loans of Rs. 12.2 crore from directors and related parties and Rs. 0.2 crore of working capital borrowings. Further, the company’s working capital cycle is well managed and remains low owing to limited inventory levels and low receivables. The net working capital intensity remained on the lower side and stood at 12.7% in FY2024 (12.9% in FY2023). SPPL’s interest coverage witnessed a slight moderation to 4.8 times in FY2024 compared to 6.1 times in FY2023, owing to the increase in interest outgo on account of debt-funded capex undertaken for capacity expansions of texturing yarn and fabric facilities in FY2024. The total debt vis-à-vis operating profit remained stable at 2.4 times in FY2024 as against 2.5 times in FY2023, owing to better profitability. The absence of any major debt-funded capex plans in the near-to-medium term is expected to support the improvement in the debt protection metrics going forward. Its ability to generate commensurate returns from the recent capex is critical for margin expansion as well as future credit metrics and will remain a key rating monitorable in the near term.

Credit challenges

Modest scale of operations – The company remains a mid-size player with modest capacity in the yarn manufacturing and fabric processing industry, with revenue of Rs. 324.8 crore in FY2024 and a net worth of Rs. 63.8 crore as on March 31, 2024. In FY2024, SPPL’s revenues declined by 2% from Rs. 331.6 crore in FY2023. The decline was primarily due to lower sales realisation amid a decline in raw material prices. The industry also encounters competition from duty-free cheap imports from countries such as Vietnam.

Moderate profitability indicators with operating margin susceptible to movements in raw material prices – Although, the company’s operating margins marginally improved to 5.7% in FY2024 compared to 5.3% in FY2023, it continues to remain moderate. The improvement in operating margins was supported by lower material prices, higher sales from value-added products like fabrics and benefits derived from the full-year operation of the solar plant, which was installed in mid-FY2023. However, the operating margins remain exposed to fluctuations in raw material prices. Its primary raw materials are polyester chips, which are derivatives of crude oil. SPPL’s operating profit margins remain susceptible to price variations of raw materials and crude oil prices, which may not be fully passed on to customers due to competitive pricing pressures. The company is, however, protected to an extent as the production is order-backed, resulting in a low inventory build-up.

Exposure to intense competition – The company primarily operates in Surat, which is a textile hub. The polyester textile industry is characterised by high levels of fragmentation and low entry barriers across the value chain. As a result, it faces stiff competition from other organised and unorganised players in the industry, which restricts pricing flexibility and, hence, profitability.

Liquidity position: Adequate

The liquidity position is adequate, supported by sufficient headroom in working capital limits. The average utilisation of the working capital limits in the 14-month period ending in September 2024 stood at 34% of the fund-based limits. As on March 31, 2024, the free cash balance and fixed deposit remained low at Rs. 0.5 crore. The company has repayment obligations of Rs. 7.7 crore in FY2025 and Rs. 6.4 crore in FY2026, which are expected to be comfortably met through internal accruals. Further, the company’s liquidity is supported by the absence of any major capex in FY2025 and FY2026.

Rating sensitivities

Positive factors – ICRA could upgrade SPPL’s ratings if the company demonstrates healthy and sustained growth in the scale of operations, along with sustained improvement in overall profitability levels and liquidity profile.

Negative factors – Pressure on SPPL’s ratings could arise if there is a weakening in cash flows due to notable deterioration in the working capital cycle, adversely impacting its liquidity and overall financial profile. A specific credit metric that could lead to a downgrade of SPPL’s ratings includes a weakening of total debt/OPBDITA to more than 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

SPPL, incorporated in 2002, manufactures polyester yarn and fabric processing in Surat, Gujarat. The company commenced commercial operations in 2004 with an initial capacity of 7,300 metric tonnes per annum (MTPA) combined for yarn and fabric. It has expanded its capacity on a regular basis, and the current production capacity of the polyester partially oriented yarn (POY) yarn is around 28,000 MTPA, texturing yarn is 28,000 MTPA and for fabric manufacturing, it is 10,000 MTPA. In addition, the company is involved in the trading of yarn.

Key financial indicators (audited)

SPPL Standalone	FY2023	FY2024
Operating income	331.6	324.8
PAT	7.0	4.3
OPBDIT/OI	5.3%	5.7%
PAT/OI	2.1%	1.3%
Total outside liabilities/Tangible net worth (times)	0.8	0.8
Total debt/OPBDIT (times)	2.5	2.4
Interest coverage (times)	6.1	4.8

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Dec 31, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund Based – Term Loans	Long- term	17.81	[ICRA]BBB-(Stable)	27-Sep-23	[ICRA]BBB-(Stable)	24-Jun-22	[ICRA]BBB-(Stable)	02-Apr-21	[ICRA]BBB-(Stable)
Fund Based – Working Capital Facilities	Long- term	11.50	[ICRA]BBB-(Stable)	27-Sep-23	[ICRA]BBB-(Stable)	24-Jun-22	[ICRA]BBB-(Stable)	02-Apr-21	[ICRA]BBB-(Stable)
Interchangeable	Long-term	(6.30)	[ICRA]BBB-(Stable)	27-Sep-23	[ICRA]BBB-(Stable)	24-Jun-22	[ICRA]BBB-(Stable)	-	-
Interchangeable	Long-term	(8.79)	[ICRA]BBB-(Stable)	-	-	-	-	-	-
Interchangeable	Short- term	(5.00)	[ICRA]A3	27-Sep-23	[ICRA]A3	24-Jun-22	[ICRA]A3	-	-
Non-Fund-Based Facilities	Long term and short term	9.79	[ICRA]BBB-(Stable)/[ICRA]A3	27-Sep-23	[ICRA]BBB-(Stable)/[ICRA]A3	24-Jun-22	[ICRA]BBB-(Stable)/[ICRA]A3	-	-
Interchangeable	Short term	-	-	-	-	24-Jun-22	[ICRA]A3	-	-
Unallocated	Long-term/short-term	-	-	-	-	24-Jun-22	[ICRA]BBB-(Stable)/[ICRA]A3	02-Apr-21	[ICRA]BBB-(Stable)/[ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Term loans	Simple
Long term – Fund Based – Working Capital Facilities	Simple
Long term – Interchangeable	Simple
Long term – Interchangeable	Very simple
Short term – Interchangeable	Very simple
Long term/Short term – Non Fund-Based Facilities	Simple

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	Long-term – Fund based – Term loans	FY2021	NA	FY2030	17.81	[ICRA]BBB- (Stable)
NA	Long Term – Fund Based – Working Capital Facilities	NA	NA	NA	11.50	[ICRA]BBB- (Stable)
NA	Long Term – Interchangeable	NA	NA	NA	(6.30)	[ICRA]BBB- (Stable)
NA	Long Term – Interchangeable	NA	NA	NA	(8.79)	[ICRA]BBB- (Stable)
NA	Short Term – Interchangeable	NA	NA	NA	(5.00)	[ICRA]A3
NA	Long Term/Short Term – Non Fund-Based Facilities	NA	NA	NA	9.79	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22-61143442
kinjal.shah@icraindia.com

Sakshi Suneja
+91 22-61693349
sakshi.suneja@icraindia.com

Karan Gupta
+91 22 6114 3416
karan.gupta@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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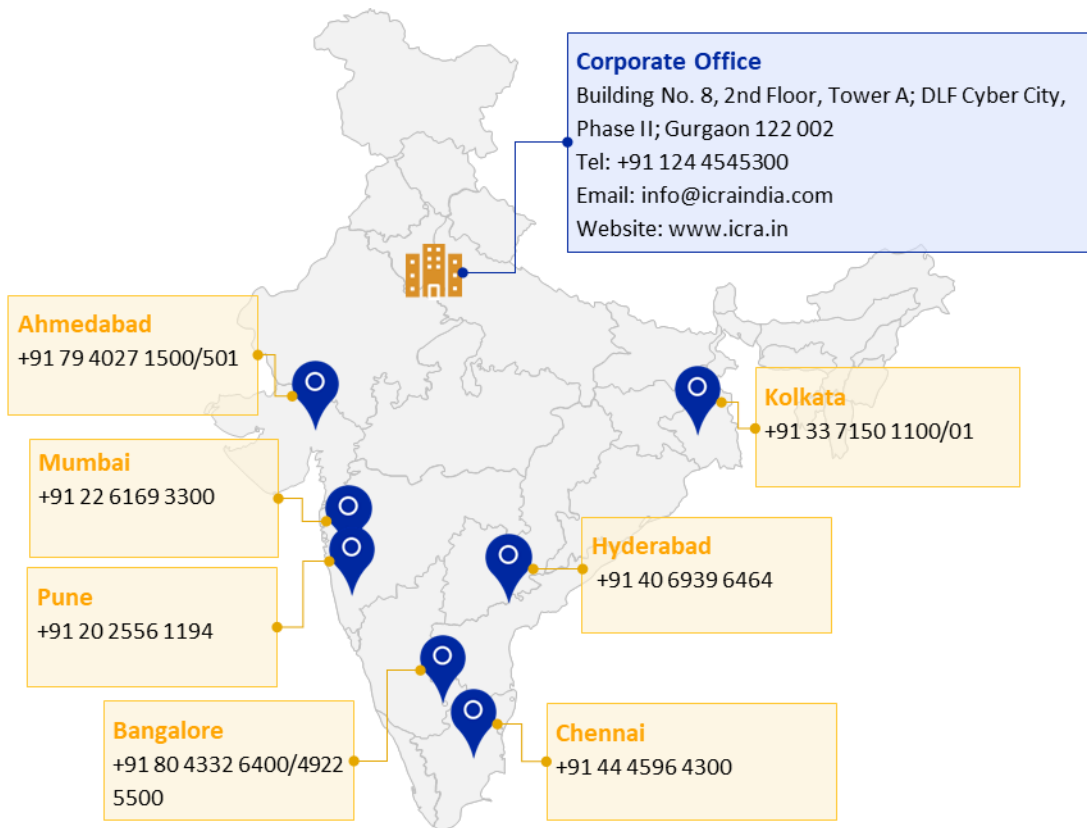
Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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