Suraj Industries

July 12, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash credit	23.00	30.00	[ICRA]BBB+(Stable); reaffirmed
Term loans	-	33.00	[ICRA]BBB+(Stable); reaffirmed
Bank Guarantee	2.00	2.00	[ICRA]A2+; reaffirmed
Total	**25.00**	**65.00**	

*Instrument details are provided in Annexure 1.

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) to the Rs. 30.00-crore[1] (enhanced from Rs. 23.00 crore) cash credit limit and to the Rs. 33.00-crore term loan facility of Suraj Industries (SI/the firm)[2]. The outlook on the long-term rating is Stable.

ICRA has also reaffirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 2.00-crore non-fund based bank facilities of the firm.

Rationale

In arriving at the ratings, ICRA has taken a consolidated view of the SRV Group entities, namely, M/s. SRV Synthetics, SRV Polytex Private Limited and M/s. Suraj Industries, given their strong operational and financial linkages, presence in similar business as well as common management control.

The ratings reaffirmation continues to factor in the extensive experience of the SRV Group's promoters in the textile industry as well as its established and geographically diversified customer base. The ratings also derive comfort from the steady improvement in the operating margins, given its increasing focus on high value-added yarn, coupled with forward integration into fabric knitting. Further, despite its ongoing debt-funded capex, the Group's capital structure and coverage indicators continue to remain comfortable backed by its strong net-worth base and healthy cash accruals in the business.

The ratings, however, remain constrained by the vulnerability in SI's operating income (OI) to movements in crude oil price, which exerts pressure on the sales realisation. The ratings also remain constrained by the limited bargaining power of the Group and the resultant susceptibility of its profitability to volatility in raw material costs, primarily partially oriented yarn (POY), which is a crude oil derivative. Further, the ratings also continue to take note of the Group's presence in a highly fragmented textile industry along with intense competition from well-established domestic players.

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[1] 100 lakh = 1 crore = 10 million

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

The ratings also continue to remain constrained by the risks associated due to the partnership constitution of two of the entities in the SRV Group. This includes risks such as capital withdrawals, and dissolution due to insolvency/retirement/death of partners.

Outlook: Stable

ICRA expects SI to benefit from the extensive experience of its promoters, which has enabled it to establish a reputed customer base over the years. The outlook may be revised to Positive if the firm is able improve its scale of operations while sustaining the profit metrics after the timely implementation of its ongoing capex. The outlook may be revised to Negative in case of lower-than-expected profitability, or if a delay in the capex implementation stretches the working capital cycle, resulting in deterioration in the financial risk profile, which weakens the liquidity profile of the firm.

Key rating drivers

Credit strengths

Extensive experience of promoters with established track record in the textile industry – With extensive knowledge and experience in the textile industry, the key promoters- Mr. Rajendra Shah and Mr. Sudhir Shah have established SRV Group's significance in the market. Over the years, the Group has undertaken technological up-gradation in its manufacturing facility to be able to comply with the latest requirements that enhances credibility.

Expanding distribution network coupled with geographically diversified and established client base – The SRV Group manufactures yarn, which is sold through more than 200 agents with billing done directly in the name of the customer. Initially the distribution was limited to the Maharashtra region. However, over the last 10 years, the Group has diversified its geographical reach to Bhilwara, Surat, etc. In addition, the Group's distribution of sales is geographically diversified with exposure to the export markets of Ethiopia, Sri Lanka, Thailand, Bangladesh and a few other African countries through SRV Synthetics. However, over the last three years, exports remained low in the range of 10-12% of the total sales.

Expanding operating profitability marked by increasing share of high value-added yarn along with forward integration into fabric knitting – The Group has increased its focus towards manufacturing high value-added yarn over the years. At present, the same accounts for ~75% of the total yarn production and has been witnessing healthy offtake from denim and other apparel manufacturers. In addition, the Group in an attempt to forward integrate its operations, has also ventured into manufacturing of greige knitted fabric, primarily used in the hosiery industry, which has resulted in a sustained growth in the operating profitability at 5% in FY2018 (P) from 3.8% in FY2017. Further, the Group is also entitled to fiscal benefits in the form of tax incentives and capital subsidy benefits under the Technology Up-gradation Fund Scheme (TUFS), which enables it to maintain its profitability margins.

Continued comfortable financial profile as exhibited by favourable capital structure and satisfactory debt metrics – Over the years, the Group's capital structure has remained comfortable as depicted by its low gearing of below 1 times on account of its strong net-worth base. However, an increase in the debt profile in line with the ongoing capex has resulted in moderation of the same to 0.6 times as on March 31, 2018 from 0.4 time as on March 31, 2017. The interest coverage indicator as reflected by OPBDITA/Interest has also moderated to 3.9 times in FY2018 (P) from 4.8 times in FY2017 as a result of an increase in the financial expenses; nevertheless, it continues to remain comfortable.

Credit challenges

Susceptibility of operating revenues and profitability to cyclicality inherent in the textile industry; profitability margins vulnerable to volatility in raw material costs – The Group continued to witness pressure on realisations amid the declining prices of POY. This resulted in a 10% decline in its OI, which stood at Rs. 375.9 crore in FY2017 against Rs. 419.8 crore in FY2016. The key raw material POY (manufactured using PET Chips), being a crude oil derivative, witnessed declining prices till FY2017 owing to falling crude oil prices. While the price of POY was in the range of Rs. 80-111/kg in FY2017, it rose to Rs. 94-132/kg in FY2018. Although the Group benefits from bulk purchase of raw materials, its profitability remains exposed to adverse fluctuations in the prices of these key raw materials and its ability to pass on the same to its customers.

Risks associated with partnership firms such as capital withdrawals, insolvency and death of partners – Due to its partnership constitution, the entity is exposed to the risk of capital withdrawals, dissolution due to insolvency/death/retirement of partners.

Intense competition from other established players in the industry – Notwithstanding the established position of the SRV Group in the domestic market, it faces strong competition from other established players in the domestic and international market. This limits its ability to pass on any increase in input costs to its customers, thereby exposing its profitability to fluctuation in raw-material prices.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology]
[Indian Textiles Industry – Spinning]

About the company:

Suraj Industries is part of the SRV Group, which includes three entities, namely M/s. SRV Synthetics (rated [ICRA]BBB+(Stable)/[ICRA]A2+ in July 2018), SRV Polytex Private Limited[3] and M/s. Suraj Industries. Suraj Industries manufactures texturised yarn and high value-added yarn in deniers ranging between 80 and 600, with the denier mix being determined by the profitability available for the respective deniers. The firm has also undertaken capex for installation of 100 knitting machines, which will be operational from FY2019. Its manufacturing facility is located at Silvassa in the Union Territory of Dadra and Nagar Haveli.

In FY2017, the Group reported a profit after tax (PAT) of Rs. 6.9 crore on an OI of Rs. 375.9 crore, as compared to a net PAT of Rs. 7.2 crore on an OI of Rs. 419.8 crore in the previous year. As per provisional financials of FY2018, the Group reported an OI of Rs. 395.7 crore with a PAT of Rs. 9.7 crore.

[3] The rating of SRV Polytex Private Limited was withdrawn in March 2013 with the bank facilities being repaid by the entity.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	419.8	375.9
PAT (Rs. crore)	7.2	6.9
OPBDIT/ OI (%)	3.1%	3.8%
RoCE (%)	12.2%	12.7%
Total Debt/ TNW (times)	0.5	0.4
Total Debt/ OPBDIT (times)	2.7	2.1
Interest Coverage (times)	3.8	4.8
NWC/ OI (%)	13%	15%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2018	Date & Rating in FY2018 Apr 2017	Date & Rating in FY2017 Apr 2016	Date & Rating in FY2016 Apr 2015
1	Cash credit	Long Term	30.00	-	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
2	Term loans	Long Term	33.00	33.00	[ICRA]BBB+(Stable)	-	-	-
3	Bank Guarantee	Short Term	2.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-		30.00	[ICRA]BBB+(Stable)
NA	Term loans	Feb 2018	8.95%	Sept 2025	33.00	[ICRA]BBB+(Stable)
NA	Bank Guarantee				2.00	[ICRA]A2+

Source: SI

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