

July 20, 2023

Suraj Industries: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Working capital facilities	30.00	30.00	[ICRA]A-(Stable); reaffirmed
Long-term fund based – Term Loans	14.02	14.02	[ICRA]A-(Stable); reaffirmed
Short-term non-fund based limits	2.00	2.00	[ICRA]A2+; reaffirmed
Long-term – Unallocated Limits	18.98	18.98	[ICRA]A-(Stable); reaffirmed
Total	65.00	65.00	

*Instrument details are provided in Annexure-I

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of the SRV Group, comprising SRV Synthetics (SRVS), Suraj Industries (SI) and SRV Polytex Private Limited (SRVPPL), given their strong operational, managerial and financial linkages. SRVPPL and SI have extended corporate guarantees towards the bank facilities of SRVS. SRVPPL has also provided corporate guarantee towards the bank borrowings of SI.

The ratings reaffirmation considers the steady operational and financial performances of the SRV Group in FY2023 and ICRA's expectations of sustained performance over the medium term, supported by healthy cash flow from operations, despite an evolving demand environment and likelihood of moderation in average realisations in FY2024. The Group recorded an operating income of Rs. 435 crore in FY2023 (provisional) against Rs. 438 crore in FY2022 with healthy sales volumes and realisations. Its operating margin sustained at 7% in FY2023 despite high volatility in raw material prices during the year. Going forward, while ICRA expects some moderation in the Group's performance in FY2024 with revenue of Rs. 390-400 crore and an operating margin of 6.5-7% p.a., its capital structure and debt coverage metrics are estimated to remain comfortable owing to low reliance on external debt and steady cash flows. ICRA notes that the promoters of the Group have established a new company to consolidate and expand their textiles business over the coming years and the likelihood of the rated entity getting merged into the newly incorporated company. While this is not expected to have any material adverse impact on the operations of the rated entity, ICRA will continue to monitor the developments.

The ratings continue to favourably factor in the extensive experience of the SRV Group's promoters in the textile industry as well as its established and diverse customer base. The ratings derive comfort from the Group's presence in the high value-added yarn segment (with spandex yarn accounting for ~70% of yarn production) and forward integration into fabric knitting, which are likely to support the Group's margin profile. The ratings also consider the conservative capital structure with a gearing of 0.2 times and healthy coverage metrics along with a comfortable liquidity position.

The ratings, however, continue to remain constrained by the vulnerability of the Group's revenue and earnings to fluctuations in raw material prices (crude derivatives). Additionally, the ratings factor in the intense competition in the industry and the commoditised nature of products, which limit the Group's pricing power. Further, ICRA notes the inherent risks associated with the partnership constitutions of the two entities in the Group, including the risk of capital withdrawals along with the track record of regular capital withdrawals from the firms, which could impact the Group's liquidity position and remain key monitorables.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group's financial risk profile will continue to remain comfortable over the medium term on the back of healthy cash accruals and limited capital expenditure.

Key rating drivers and their description

Credit strengths

Comfortable capital structure and healthy debt protection metrics – The Group continues to maintain a conservative capital structure with a gearing of 0.2 times and TOL/TNW of 0.3 times as on March 31, 2023 (provisional), supported by healthy cash accruals, negligible debt-funded capex in the recent past and low utilisation of sanctioned working capital facilities. ICRA expects the Group to continue to maintain healthy debt coverage metrics, aided by stable cash flow from operations and relatively lower planned capital expenditure.

Focus on value-added textile products and forward integration into weavings support margins – The Group focuses on the high value-added textile segment, with spandex yarn accounting for ~70% of its production. Additionally, the Group has forward integrated its operations to manufacture grieger knitted fabric, which finds utility in the hosiery industry. These aid the Group in capturing a larger portion of the textile value chain and improving the profitability of business.

Diversified and established customer base with wide distribution network – The Group has established itself as a prominent player in the textile industry and has a diversified customer base, characterised by low concentration of revenues with the top-5 customers accounting for less than 25% of its revenue over the last three years. The Group also exports to customers in Bangladesh, Thailand and some African countries. However, exports account for only ~5% of the Group's revenue. The established long-term relationship with key customers, reflected in repeat orders, provides significant revenue visibility to the Group.

Extensive experience of promoters/partners – The Group's key promoters/partners, Mr. Rajendra Shah and Mr. Sudhir Shah, along with second generation family members, have substantial experience spanning over three decades in the textile industry. ICRA expects the experience of the promoters to continue to support the Group.

Credit challenges

Vulnerability of revenue and profitability to volatility in raw material costs and finished goods prices – The Group's primary raw material is partially-oriented yarn (POY), which is a crude derivative and exhibits high price volatility. Any adverse movement in prices of raw materials could lead to a moderation in the Group's profitability and cash accruals, impacting its financial risk profile.

Intense competition and commoditised nature of products limit pricing flexibility – The polyester textile industry is characterised by intense competition owing to the high level of fragmentation and low entry barrier across the value chain. Further, polyester yarn is a commodity with limited scope for product differentiation and market-determined prices. These limit the pricing flexibility available to the Group.

Risk of capital withdrawal from the partnership firms – The two primary entities in the Group – SRV Synthetics and Suraj Industries – are partnership firms. This exposes the Group to the risk of capital withdrawal by partners, which could adversely impact the net worth base, capital structure, debt coverage metrics and liquidity position. ICRA notes that the partners have a track record of regular capital withdrawals from the firms. Any sizeable capital withdrawal, leading to weakening of the financial risk profile of the Group, could exert pressure on the ratings and remains a key monitorable.

Liquidity position: Adequate

SRV Group's liquidity remains adequate, characterised by free cash and buffer from undrawn working capital facilities aggregating to ~Rs. 30 crore as on March 31, 2023 (provisional), with commensurate drawing power. The Group's average utilisation of working capital facilities stood at 3% of the sanctioned limits in FY2023, which provides comfort. The Group is not expected to incur any major capital expenditure over the medium term and term debt repayment obligations remain low at Rs. 5.4 crore in FY2024 and Rs. 2.3 crore in FY2025. Against this, the Group is expected to generate healthy cash flow from operations worth Rs. 15-20 crore per annum over the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade the Group’s ratings in case of a sustained improvement in the operating income and profitability, translating into healthy liquidity and comfortable debt coverage metrics. Specific credit metrics that could result in an upgrade include return on capital employed (RoCE) above 16% on a sustained basis.

Negative factors – Pressure on the ratings could emerge if a substantial and sustained decline in revenue and/or profitability leads to a decline in cash accruals. The ratings could also be downgraded in case of a deterioration in the working capital cycle, sizeable debt-funded capex or significant capital withdrawal, leading to weakening of the liquidity profile on a sustained basis. Specific credit metrics which could result in ratings downgrade include an interest cover below 5.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Textiles (Spinning) Rating Methodology – Textiles (Fabric)
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has considered the consolidated financial risk profile of SRV Synthetics, Suraj Industries and SRV Polytex Private Limited as detailed in Annexure II

About the company

The SRV Group comprises three entities – SRV Synthetics, Suraj Industries and SRV Polytex Private Limited. SRV Synthetics and Suraj Industries are partnership firms, with members of the Shah family as partners. They manufacture texturised polyester yarn, high value-added spandex yarn and knitted greige fabric. SRV Polytex Private Limited is an investment company with no operations. The Group has an installed capacity of 35 texturising machines and 184 knitting machines as on March 31, 2023.

Key financial indicators

SRV Group (Consolidated)	FY2021 (audited)	FY2022 (audited)	FY2023 (provisional)
Operating income	299.7	437.7	435.2
PAT	31.8	21.2	17.5
OPBDIT/OI	14.7%	7.1%	7.0%
PAT/OI	10.6%	4.8%	4.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.4	0.3
Total debt/OPBDIT (times)	0.7	1.0	0.8
Interest coverage (times)	11.7	16.9	27.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore

Note: ICRA has combined the financial profile of SRV Synthetics, Suraj Industries and SRV Polytex Private Limited. All numbers as per ICRA’s calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2024)			Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jul 20, 2023	Apr 25, 2022	-	Jan 29, 2021
1 Cash Credit	Long-term	30.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	[ICRA]BBB+ (Stable)
2 Term Loans	Long-term	14.02	7.66	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	[ICRA]BBB+ (Stable)
3 Unallocated Limits	Long-term	18.98	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	[ICRA]BBB+ (Stable)
4 Non-fund based limits	Short-term	2.00	-	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Working capital facilities	Simple
Long-term fund based – Term Loans	Simple
Short-term non-fund based limits	Simple
Long-term – Unallocated Limits	N.A.

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	Cash Credit	NA	NA	NA	30.00	[ICRA]A-(Stable)
NA	Term Loans	FY2018	NA	FY2025	14.02	[ICRA]A-(Stable)
NA	Unallocated Limits	NA	NA	NA	18.98	[ICRA]A-(Stable)
NA	Non-fund based limits	NA	NA	NA	2.00	[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
Suraj Industries	-	Full Consolidation
SRV Synthetics	Group Entity	Full Consolidation
SRV Polytex Private Limited	Group Entity	Full Consolidation

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About ICRA Limited:

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