

September 20, 2023

SVG Fashions Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Cash Credit	16.00	16.00	[ICRA]A (Stable); reaffirmed
Long-term fund-based – Term Loans	10.80	25.80	[ICRA]A (Stable); reaffirmed/assigned for enhanced amount
Long-term/short-term non fund-based facilities	3.20	3.20	[ICRA]A (Stable)/[ICRA]A2+; reaffirmed
Total	30.00	45.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has taken a consolidated view of SVG Fashions Private Limited (SVGFPPL), which includes its subsidiaries and associate companies, while assigning the credit ratings, given the significant operational, financial and managerial linkages among them. SVGFPPL has extended corporate guarantees towards the bank facilities of Sunflag Filaments Limited, Laxmi Technical Textiles Private Limited [rated [ICRA]BB+/Stable/A4+ Issuer Not Cooperating] and Raj Rayon Industries Limited.

The reaffirmation of the ratings reflects the healthy operating performance of SVG Fashions Private Limited (SVGFPPL) in FY2023 and the phased operationalisation of the manufacturing facilities of Raj Rayon Industries Limited (RRIL) in H2 FY2023. ICRA expects RRIL's operations to further ramp up in FY2024 with planned operationalisation of continuous polymerisation and spinning capacities in Q2 FY2024 and Q4 FY2024, aided by the extensive experience of the promoters in the man-made fibre industry. SVGFPPL recorded a revenue of ~Rs. 300 crore in FY2023, up 9% YoY, with a ~500 basis points (bps) improvement in the operating profit margin to ~25%, supported by the high value-added nature of its products (specialised finished fabrics and clothing solutions) coupled with established relationships with global brands. ICRA expects SVGFPPL's financial risk profile to remain comfortable over the medium term on the back of limited dependence on debt, sizeable free cash and liquid investments and stable operational profile. RRIL commenced its operations in Q2 FY2023 and recorded revenues of ~Rs. 136 crore in FY2023 with an operating margin of 1.2%. With the planned operationalisation of the on-going capex, the company's revenue is estimated to grow to more than Rs. 800 crore in FY2024 with a margin of ~5%. Overall, the Group is expected to record a substantial growth in its revenue to more than Rs. 1,000 crore in FY2024 from Rs. 468 crore in FY2023 (with the major portion of the growth coming from RRIL) while maintaining an operating margin of ~10%. The Group's total debt/OPBIDTA is likely to peak at ~2.0 times in FY2024 but debt coverage metrics are estimated to remain adequate with an interest cover of ~5.0 times and DSCR of more than 2.0 times in FY2024. ICRA also considers the sizeable free cash and liquid investments worth Rs. 90 crore as on March 31, 2023, which support the Group's financial risk profile.

The ratings continue to favourably factor in the extensive experience of the promoters of SVGFPPL in the textile industry and operational synergies among its Group companies in the textile business as well as its well-integrated operations across the textile value chain. The acquisition of RRIL is a step towards enhancing the backward integration of the Group, which is likely to yield synergy benefits for the Group over the coming years.

The ratings, however, continue to remain constrained by the Group's high working capital intensity of operations emanating from the high inventory holding, tight terms with suppliers and limited pricing power due to intense competition from various organised and unorganised players in the textile industry. SVGFPPL's revenues and margins remain vulnerable to fluctuation in prices of raw materials and finished products, which are derivatives of crude oil. The ratings also consider the contingent liabilities in the form of corporate guarantees extended in favour of Group companies and significant investments/advances

to non-core businesses. Any invocation of corporate guarantees and/or delay in realisation of investments/advances could have a material impact on the company's financial flexibility.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group's operations will benefit from the expected scale-up of RRIL, while maintaining a comfortable financial risk profile.

Key rating drivers and their description

Credit strengths

Diversified product portfolio with integrated manufacturing operations provide stability to revenues and margins – The Group has a diversified presence in manufacturing texturised yarn, circular knitted fabrics, embroidered fabrics, furnishing fabrics, warp knit fabrics and readymade garments. The integration of RRIL into the Group is further expected to result in significant backward integration and operating synergies for the Group. This is likely to improve the stability of revenues and margins of the Group, going forward. Moreover, the Group continues to have a diversified customer base with the top-10 customers accounting for ~40% of its revenues in FY2022 and FY2023. Its operational profile is further supported by established relationships with reputed brands including Adidas, Puma, Fila, etc.

Comfortable capital structure and debt protection metrics – The Group continues to maintain a healthy capital structure, characterised by a gearing of 0.2 times as on March 31, 2023 (provisional) and Total Debt/OPBDITA of 1.5 times in FY2023 (provisional) on the back of healthy accruals and limited dependence on bank debt. The Group's debt coverage metrics remain healthy with an interest cover of 22.5 times and DSCR of 11 times in FY2023. While the financial risk profile is expected to moderate over the next 1-2 years owing to planned addition of debt to fund the ongoing capex and phased scale-up of RRIL's operations, its gearing is likely to remain below 0.5 times with the interest cover above 5.0 times and DSCR above 2.0 times over the medium term.

Extensive experience of promoters in the textile industry – SVGFPL is a part of the larger Shree Venkateshwara Group of Companies (SVG), which has diversified interests in the textile industry. The company is managed by the Agarwal family, which has experience of over five decades in the Indian textile industry from trading to manufacturing. The company's Chairman, Mr. Satyanarayan Agarwal, is also the President of the All India Texturisers' Association.

Credit challenges

Large debt-funded capex towards operationalisation of the acquired entity likely to impact capital structure – The Group has planned a sizeable investment of more than Rs. 250 crore in RRIL towards operationalisation of its plant, partly funded by term debt of Rs. 185 crore (Rs. 86 crore drawn down till March 31, 2023). With the likely completion of the capex in FY2024, ICRA expects moderation in the Group's capital structure and debt protection metrics. Any delay in the profitable scale-up of operations of RRIL may have an adverse impact on the Group's financial risk profile.

Irrevocable and unconditional corporate guarantees to Group companies may impact liquidity – SVGFPL has extended corporate guarantees to its Group companies, Sunflag Filaments Limited, Laxmi Technical Textile Private Limited and Raj Rayon Industries Limited. ICRA notes the possibility of limitations on the Group's financial flexibility owing to the substantial corporate guarantees issued by the company. In addition to this, the Group has extended sizeable loans and advances to entities involved in non-core activities, especially real estate. Any invocation of the guarantees or delay in recovery of such advances could have a material impact on the liquidity profile.

Revenues and margins vulnerable to volatility in commodity prices – The Group's major raw materials, partially-oriented yarn (POY), are derived from PTA and MEG, which are crude oil derivatives. Given the volatility in crude oil prices, the company's revenues and margins remain exposed to adverse price fluctuations.

Limited pricing flexibility and intense competition in the industry – The textile industry in India is characterised by high level of fragmentation and low entry barriers across the value chain. As a result, the company faces intense competition from other

established players in the industry. This, coupled with the largely commoditised nature of the product with low avenues of product differentiation, limits the Group's pricing flexibility.

Liquidity position: Adequate

The Group's liquidity profile remains adequate, characterised by liquid investments and undrawn working capital facilities worth more than Rs. 100 crore as on March 31, 2023 (provisional). The Group is likely to incur capital expenditure worth Rs. 130-135 crore in FY2024, largely towards completion of the ongoing capacity enhancement at RRIL and plant modernisation of SVGFPL, partly financed by fresh term debt of ~Rs. 110 crore. The Group also has debt repayment obligation worth Rs. 19 crore in FY2024 and Rs. 25 crore in FY2025. Against this, the Group is estimated to generate cash flow from operations worth Rs. 40-50 crore in FY2024 and Rs. 70-80 crore in FY2025. The average utilisation of sanctioned working capital limits of SVGFPL stood at 10% in FY2023, which provides comfort.

Rating sensitivities

Positive factors – The ratings may be upgraded in case of a sustained growth in revenue and profitability of the Group and profitable scale-up of the operations of the acquired entity in a timely manner, while maintaining a comfortable capital structure, debt coverage metrics and liquidity profile.

Negative factors – Pressure on the ratings could arise if the Group's capital structure and coverage metrics deteriorate due to a delay in the scale-up of operations of the acquired entity or in case of sustained deterioration in the Group's liquidity profile. Specific credit metrics that 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 Making)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SVG Fashions Private Limited, Laxmi Technical Textile Private Limited, Sunflag Filaments Limited and Raj Rayon Industries Limited

About the company

Established in 1994, SVG Fashions Private Limited (SVGFPPL; erstwhile Deepak Suitings Limited) is a part of the diversified Shree Venkateshwara Group and began its operations as a fabric trading company. Over the years, it has diversified into manufacturing knitted fabric, embroidered fabric, finished fabric and garments in its facilities in Daman and Ankleshwar, focusing on the high value-added product segment.

Raj Rayon Industries Limited (RRIL) is a backward integrated manufacturer of polyester yarn with in-house polymerisation and texturing capacities in its plant in Silvassa. The company was acquired by SVGFPPL and its promoters, which together hold a 94.13% of RRIL's equity as on June 30, 2023), vide a resolution plan approved by the Ahmedabad bench of the National Companies Law Tribunal on October 5, 2021.

Laxmi Technical Textile Private Limited (LTTPL) manufactures specialised knitted fabric which finds application in home furnishing, footwear, lamination, etc. The company was acquired by the SVG Group in 1999. SVGFPPL holds a 23.2% equity stake in the company as on March 31, 2023.

Sunflag Filaments Limited (SFL) manufactures texturised yarn and knitted fabric in its plants in Daman and Silvassa. The company is a part of the SVG Group with SVGFPPL directly owning a 6.9% equity stake in the company as on March 31, 2023.

Key financial indicators

SVGFPPL Consolidated	FY2021 (audited)	FY2022 (audited)	FY2023 (provisional)
Operating income	267	391	506
PAT	24	44	39
OPBDIT/OI	13.7%	15.6%	15.5%
PAT/OI	9.0%	11.1%	7.7%
Total outside liabilities/Tangible net worth (times)	0.2	0.2	0.6
Total debt/OPBDIT (times)	0.4	0.4	1.5
Interest coverage (times)	21.8	31.5	22.5

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

Note: ICRA has combined the financial statements of SVG Fashions Private Limited, Raj Rayon Industries Limited, Laxmi Technical Textile Private Limited and Sunflag Filaments Limited based on best available information. All ratios as per ICRA's calculations

SVGFPPL Standalone	FY2021 (audited)	FY2022 (audited)	FY2023 (provisional)
Operating income	188	276	301
PAT	21	41	53
OPBDIT/OI	16.3%	20.4%	25.4%
PAT/OI	11.3%	14.9%	17.6%
Total outside liabilities/Tangible net worth (times)	0.2	0.2	0.2
Total debt/OPBDIT (times)	0.3	0.3	0.3
Interest coverage (times)	25.4	42.9	77.6

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2024)		Chronology of rating history for the past 3 years			
			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
				Sep 20, 2023	Aug 07, 2023			
1 Cash Credit	Long-term	16.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	-	[ICRA]A (Stable)
2 Term Loan	Long-term	25.80	7.02	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Negative)	-	[ICRA]A (Stable)
3 Non fund-based facilities	Long-term/ short-term	3.20	-	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A2+	-	[ICRA]A (Stable)/ [ICRA]A1
4 Unallocated Limits	Long-term/ short-term	-	-	-	-	[ICRA]A (Negative)/ [ICRA]A2+	-	[ICRA]A (Stable)/ [ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term fund-based – Term Loans	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	Cash Credit	NA	NA	NA	16.00	[ICRA]A (Stable)
NA	Term Loan-I	FY2019	9-10%	FY2025	0.16	[ICRA]A (Stable)
NA	Term Loan-II	FY2020	9-10%	FY2025	0.08	[ICRA]A (Stable)
NA	Term Loan-III	FY2021	9-10%	FY2026	0.24	[ICRA]A (Stable)
NA	Term Loan-IV	FY2021	9-10%	FY2027	2.03	[ICRA]A (Stable)
NA	Term Loan-V	FY2022	9-10%	FY2027	3.97	[ICRA]A (Stable)
NA	Term Loan-VI	FY2022	9-10%	FY2028	1.01	[ICRA]A (Stable)
NA	Term Loan-VII	FY2024	9-10%	FY2029	14.68	[ICRA]A (Stable)
NA	Proposed Term Loan	NA	NA	NA	3.63	[ICRA]A (Stable)
NA	Non fund-based facilities	NA	NA	NA	3.20	[ICRA]A (Stable)/[ICRA]A2+

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Annexure II: List of entities considered for consolidated analysis

Company Name	SVGFPL's Ownership	Consolidation Approach
SVG Fashions Private Limited	-	Full Consolidation
Raj Rayon Industries Limited	84.9%	Full Consolidation
Laxmi Technical Textile Private Limited	23.2%	Full Consolidation
Sunflag Filaments Limited	6.9%	Full Consolidation

Source: Company data; As on June 30, 2023

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