February 21, 2024

Sanathan Textiles Limited: [ICRA]A (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]A (Stable); assigned
Total	-	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to Sanathan Textiles Limited (STL) draws comfort from its position as one of the leading players in the polyester yarn manufacturing in India and the extensive experience of its promoters in the industry. Post the completion of the ongoing expansion project in Sanathan Polycot Private Limited (SPPL; 100% subsidiary of STL), the group's capacity will double by the end of March 2025 and will help the company further strengthen its operating profile on the back of better product mix and proximity to both raw material sources and consumption centres. ICRA also notes STL's established relationships with customers and suppliers, which help the company in receiving regular and repeat orders and in turn sweat its assets at optimal capacity utilisation rates. The rating also derives strength from its diversified product portfolio, established distribution network and location specific advantages owing to its proximity to the raw material sources. While an increase in debt levels in FY2024 and FY2025 would moderate STL's credit metrics including total debt to operating profit ratio, ICRA notes that the interest coverage and debt service coverage ratios are likely to remain commensurate with the rating category on account of healthy cash generation from the business and comfortable repayment schedule.

The rating, however, remains constrained due to largely debt-funded capital expenditure (capex) of Rs. 2,121 crore, which is being undertaken in SPPL. This exposes the Group to implementation risks associated with the greenfield projects along with offtake risks. ICRA notes that STL's proximity to the textile hub in Punjab and related savings in freight costs, coupled with lower working capital requirements for the consumers in that region, mitigate offtake risks to an extent. In FY2023 and H1 FY2024, the company's profitability moderated owing to significant exports of polyester yarn by Chinese manufacturers at cheaper rates in the Indian market. However, the profitability is expected to improve from H2 FY2024 with the implementation of the Quality Control Order by the Government of India from October 2023, which has curtailed the import of polyester yarn. The rating is also constrained by the intense competition and the fragmented nature of the polyester yarn industry, which exert pricing pressure. Moreover, the company's profitability and cash flows are likely to remain vulnerable to the cyclicality inherent in the textile sector and the volatility in crude-oil linked raw material prices and realisations. The company also remains exposed to forex risks as about 40% of the total debt contracted for the ongoing capex is denominated in foreign currency, which in addition to its raw material imports, would keep the company a net forex buyer in the near-to-medium term.

The Stable outlook on the rating reflects ICRA's expectation that despite some moderation due to largely debt-funded capex, the financial risk profile of STL is expected to remain comfortable in the near term due to its healthy cash generation.

Key rating drivers and their description

Credit strengths

Status as one of the leading manufacturers of polyester yarn in India; improvement in operating profile expected post the completion of the ongoing capacity expansion project – The company is among the leading players engaged in polyester yarn manufacturing in India, with an annual installed capacity of around 2,00,750 metric tonnes per annum (MTPA) as on December 31, 2023. It is also engaged in manufacturing of cotton yarn and industrial drawn yarn with annual capacity of 14,000 MTPA and 9,000 MTPA as on December 31,2023 respectively. The capacity utilisation has remained above 95% during the last three years. Going forward, with the setting up of the new plant for manufacturing of polyester yarn and cotton yarn in SPPL, the capacity will increase further by around 2,92,000 MTPA for polyester yarn and by around 10,950 MTPA for cotton yarn by the end of FY2025, which will further improve the operating profile of the company, given the economies of scale, better product mix and location specific advantages associated with the project. In the medium term, increasing application of polyester yarns among the end-users is expected to drive market growth.

Diversified product portfolio with established distribution network and diversified customer base – The company offers various polyester yarn products such as partially oriented yarn (POY), draw textured yarn (DTY), fully drawn yarn (FDY), twisted yarn, among others. It has applications in varied industries such as apparel, sports, athleisure, active and innerwear, home textiles, technical textiles, travel & leisure, logistics & mobility, among others. The company has a global network of more than 250 distributors to cater to customers' requirements. The customer profile remained diversified with the top-10 customers accounting for around 22% of revenues in FY2023 and 23% in 9M FY2024. Polyester yarn accounts for more than 75% of revenues in FY2023, followed by cotton yarn, which contributed 19-20% to revenues in FY2023.

Extensive experience of the promoters in textiles industry – Mr. Paresh Kumar Dattani, the Chairman and Managing Director of the company, has over four decades of experience in the textiles industry. The company was incorporated in 2005 and during the last two decades, the company has been able to strengthen its footprint in the polyester yarn industry by reporting profitability, which is higher or comparable to its peers over the last few years at competitive capital costs. Mr. Ajaykumar Dattani, Joint Managing Director and co-promoter, has extensive experience of more than 16 years in the textile industry.

Location specific advantages owing to its proximity to raw material sources and consumption centres – The manufacturing facility of STL is located at Silvassa, Western Gujarat. It is among the major strategic locations for polyester yarn manufacturers in India due to availability of manufacturing facilities across the supply chain in the polyester segment. Besides, proximity to manufacturers of key raw materials, i.e., purified terephthalic acid (PTA) and mono-ethylene glycol (MEG) leads to freight cost savings for the yarn manufacturers in Western Gujarat. The upcoming unit in Punjab is also located close to the raw material sources in Panipat region and is also close to the key consumption centre of Ludhiana, imparting a competitive edge to the company.

Credit challenges

Exposure to project implementation and offtake risks – In SPPL, the management is undertaking a project for setting up of polyester yarn and cotton yarn unit. The total envisaged cost of the project is around Rs.2,121 crore, to be funded through a mix of term loans of Rs. 950.0 crore, external commercial borrowings (ECB) of Rs. 585.2 crore and the balance Rs.585.8 crore through internal accruals. Till December 2023, the company has incurred Rs.350 crore, funded through term loan of Rs.70 crore and the balance Rs.280 crore through internal accruals. The project is expected to be completed by March 2025. The company is exposed to implementation risks associated with the greenfield projects along with offtake risks. However, the unit's proximity to the textile hub of Ludhiana and related savings in terms of freight costs and lower working capital requirements for the buyers in that region mitigate offtake risks to an extent.

Largely debt-funded nature of the project, which would result in moderation of credit metrics in FY2024 and FY2025 – The gearing has remained comfortable and stood below unity in the last three fiscals. The debt coverage indicators too remained comfortable with total debt to OPBDITA and interest coverage of 1.0 times and 9.1 times, respectively in FY2023 against 0.7 times and 13.7 times, respectively in FY2022. However, with the ongoing debt-funded capex, the debt level is expected to peak in FY2025, resulting in total debt to OPBDITA touching a level of close to 4.0 times in that year, post which it is expected to moderate in FY2026 on the back of healthy cash flow generation. Other credit metrics including interest coverage and debt service coverage ratios are likely to remain commensurate with the rating category in FY2025 and FY2026, supported by incremental cash flow generation and favourable loan repayment schedule.

Exposure to foreign exchange fluctuations as almost 40% of the contracted debt for the expansion is denominated in foreign currency – The company is exposed to foreign exchange fluctuations as a part of funding for the expansion project worth

Rs.585.2 crore has been made through ECB loan. Besides, 15-20% of PTA is imported, which makes the company a net forex buyer. Export of polyester yarn would partly mitigate forex risks through natural hedge.

Volatility in raw material prices, which are linked to crude oil prices – The major raw materials consumed are PTA and MEG, both of which are derivatives of crude oil are continuously affected by the movement in crude oil prices. Also, a part of the raw material requirement is imported, which necessitates higher inventory holding for that material.

Liquidity position: Adequate

The liquidity position of the company remains adequate, with cash and bank balance of ~Rs. 57.3 crore as on March 31, 2023 and unutilised fund-based limits of ~Rs.150 crore (with commensurate drawing power) as on December 31, 2023. The STL Group plans to incur capex of Rs. 500 crore and Rs. 1,475 crore towards the expansion project in FY2024 and FY2025, respectively, largely funded by already tied up debt of Rs. 1,535 crore. The cash flow from operations are expected to remain healthy in range of Rs.120-Rs.240 crore during FY2024-FY2025. Against this, it has annual repayment of Rs.57.8 crore in FY2024 and Rs.96.3 crore in FY2025. ICRA also draws comfort from STL's access to various financing options, as demonstrated by availing lower-cost ECB funding for the expansion project.

Rating sensitivities

Positive factors – The rating could be upgraded if the ongoing expansion project is completed within the stipulated time and costs along with profitable ramp-up of the new capacity as per the designed operating parameters.

Negative factors – The rating could witness a downward revision in case of any significant time/cost overrun related to the ongoing expansion project, leading to deterioration in debt protection metrics and/or liquidity. Any prolonged slowdown in demand or pricing pressure emanating from cheaper polyester yarn imports, leading to weakening of profitability, could also trigger a rating downgrade. Specific credit metric for downgrade includes debt service coverage ratio (DSCR) remaining below 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Textiles (Spinning)
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered consolidated financials of STL. As on March 31, 2023, STL has one wholly owned subsidiary that has been enlisted in Annexure -II

About the company

Sanathan Textiles Limited (STL) was incorporated in 2005 by the Dattani family. It is mainly engaged in manufacturing and exports of polyester yarn, cotton yarn and yarn for technical textile. The company's plant is situated in Surangi village, Silvassa, and has its corporate office in Mumbai. The total installed capacity stood at 2,00,750 MTPA for polyester yarn, 14,000 MTPA for cotton yarn and 9,000 MTPA for industrial drawn yarn as on December 31,2023. In FY2021, Sanathan Polycot Private Limited was incorporated as a wholly-owned subsidiary of STL. Under this company, the management is undertaking a project for setting up of cotton yarn and polyester yarn units with an installed capacity of 10,950 MTPA and 2,92,000 MTPA, respectively. Its polyester plant is under construction at Wazirabad, Punjab, and cotton plant at Surangi, Silvassa.

Key financial indicators (Audited)

STL Consolidated	FY2022	FY2023
Operating income	3,185.9	3,331.9
PAT	358.0	153.2
OPBDIT/OI	17.1%	8.4%
PAT/OI	11.2%	4.6%
Total outside liabilities/Tangible net worth (times)	0.8	0.7
Total debt/OPBDIT (times)	0.7	1.0
Interest coverage (times)	13.7	9.1

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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Feb 21, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 21, 2024	-	-	-
1	**Issuer Ratings**	Long term	-	--	**[ICRA]A (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Ratings	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
-	Issuer Ratings	NA	NA	NA	-	[ICRA]A (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	STL Ownership	Consolidation Approach
Sanathan Polycot Private Limited	100%	Full Consolidation

Source: Company

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