March 20, 2024

# Sanathan Polycot Private 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 assigned rating considers the status of Sanathan Polycot Private Limited (SPL) as a wholly-owned subsidiary of Sanathan Textiles Limited (STL, rated [ICRA]A/Stable/[ICRA]A2+), which has healthy operational and financial risk profiles. ICRA expects SPL to receive significant operational, financial and management support from STL because of its parentage. The ongoing capital expenditure (capex) under SPL is strategically important for the Group (STL and SPL together) as it will enhance its capacity for manufacturing of polyester yarn by ~2,00,750 million tonnes per annum by FY2025. SPL is likely to benefit from the operational synergies ensuing from STL's cost competitive operations and its established market position and supplier network. This is more because STL is one of India's leading manufacturers of polyester yarn in India. This, together with the shared name and common management, reflects SPL's strategic significance to its parent. While assigning the rating, ICRA has also noted that SPL's bank facilities are backed by a corporate guarantee from STL for the entire tenure of debt facilities.

The rating, however, remains constrained due to largely debt-funded capital expenditure (capex) of Rs. 2,121 crore undertaken in SPL, which exposes it to the implementation risks associated with greenfield projects and to offtake risks. ICRA notes that proximity to the textile hub in Punjab and related savings in freight costs and lower working capital requirements for the consumers in that region mitigate offtake risks to an extent. Further, regulatory risks associated with the project remain low as SPL has received necessary approvals from various regulatory/governing bodies, mitigating timeline related risks to some extent. The funding risks are also mitigated as the entire debt requirement for the project has been tied up. Further, the terms of the debt tied up are favourable, with a moratorium of one year from the scheduled commercial operation date (SCOD). Till December 2023, the company has incurred Rs. 350 crore towards the project, funded through term loan of Rs. 70 crore and the balance of Rs. 280 crore through internal accruals. The project is expected to be completed by March 2025.

The Stable outlook on the rating reflects ICRA's expectation of continued operational and financial support from the parent till successful commissioning and stabilisation of the project.

## Key rating drivers and their description

### Credit strengths

**Strong parentage of Sanathan Group and extensive experience of the management in the textile industry –** SPL has been floated by STL, the flagship company of the Group and is one of the leading manufacturers of polyester yarn in India. SPL is in the process of setting up polyester and cotton yarn manufacturing units in Punjab and Silvassa. SPL is strategically important to the Group, given that it will help enhance the Group's manufacturing capacity, which will double by the end of March FY2025, thereby facilitating benefits of economies of scale. Besides, the common management and STL extending a corporate guarantee for SPL's bank facilities till the end of the tenure of the loans further provide comfort. Moreover, the company benefits from the extensive experience of the management of over four decades and its established track record in the textile industry through its flagship company.

**Location specific advantages owing to its proximity to raw material sources and consumption centres –** The upcoming cotton unit will be located at Silvassa, Western Gujarat. It is among the major strategic locations for yarn manufacturers in India due to availability of manufacturing facilities across the supply chain in the textile 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. Moreover, the upcoming polyester unit in Punjab is located close to the raw material sources in the Panipat region and is also close to the key consumption centre of Ludhiana, imparting a competitive edge to the company.

**Favourable terms of debt –** The terms of the debt that SPL have tied up for the project are favourable, with a moratorium of one year after SCOD. Further, with healthy cash flows of the parent entity and cash generation expected from SPL's project, ICRA expects the Group's consolidated leverage and coverage indicators to improve from FY2026.

## Credit challenges

**Exposure to project implementation and offtake risks –** In SPL, 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, which would be funded by 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 internal accruals of STL worth Rs. 280 crore. The project is expected to be completed by March 2025. The company is exposed to implementation risks associated with the greenfield projects along with the 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 would moderate the Group's credit metrics in FY2024 and FY2025 –** The Group's 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 Group's 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 at the consolidated level, supported by incremental cash flow generation and favourable loan repayment schedule.

**Volatility in raw material prices, which are linked to crude oil prices –** The major raw materials consumed include PTA and MEG, both of which are derivatives of crude oil. These 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.

## Liquidity position: Adequate

The liquidity position of the company remains adequate, with cash and bank balance of ~Rs. 11.7 crore as on March 31, 2023. Moreover, the project-related funding risks have been addressed to a large extent as Rs. 280 crore has already been brought in by STL till December 31, 2023, out of the required contribution of Rs. 585.8 crore. The entire debt requirement worth Rs. 1,535 crore has been tied up for the project, with Rs. 70 crore already disbursed till December 31, 2023. The company plans to incur capex of Rs. 500 crore and Rs. 1,475 crore towards expansion project in FY2024 and FY2025, respectively. STL's healthy cash flow generation and ability to access various financing options including lower-cost external commercial borrowings (ECBs) provide additional comfort. Nevertheless, timely commissioning of the project within the budgeted costs and the company's ability to profitably ramp up its operations remain key monitorable.

## Rating sensitivities

**Positive factors –** Successful and timely implementation of the entire project within the envisaged costs, and profitable ramp-up of operations thereafter, resulting in a sustained improvement in the company's financial risk profile, will be positive rating triggers. An improvement in the credit profile of the parent could also be a positive rating factor.

**Negative factors –** Pressure on the rating could arise if the company experiences significant time and cost overrun, slow ramp-up, and/or weak revenue growth and profitability, resulting in inadequate coverage metrics. Further, a deterioration in the credit profile of the parent and/or weakening in linkages/ strength of support from the parent could be negative rating triggers.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | [Corporate Credit Rating Methodology](#)<br>[Rating Methodology for Textiles (Spinning)](#) |
| **Parent/Group support** | Parent/Group Company: Sanathan Textiles Limited (STL)<br>ICRA expects STL [rated [ICRA]A (Stable)/[ICRA]A2+] to be willing to extend financial support to SPL, should there be a need, given the high strategic importance of SPL. Both STL and SPL share a common name, which in ICRA's opinion would persuade STL to provide financial support to SPL to protect its reputation from the consequences of a Group entity's distress |
| **Consolidation/Standalone** | The rating is based on the standalone business and financial risk profiles of SPL, factoring in the support from STL, as mentioned above |

## About the company

Sanathan Polycot Private Limited (SPL) was incorporated in 2021 as a wholly-owned subsidiary of Sanathan Textiles Limited (STL). The management has undertaken a project for setting up of cotton yarn and polyester yarn. Its polyester plant is under construction at Wazirabad, Punjab, and cotton plant at Surangi, Silvassa, Dadra and Nagar Haveli. The total envisaged cost of the project is around Rs. 2,121 crore, to be funded by term loan and ECB of Rs. 1,535 crore and the balance Rs. 585 crore through promoter's contribution. The project is expected to commence operations by March 2025.

STL was incorporated in 2005 by the Dattani family. It is mainly engaged in the manufacturing and exports of polyester yarn, cotton yarn and yarn for technical textile. The company's plant is situated at Surangi village, Silvassa, and has its corporate office in Mumbai. The total installed capacity stood at 2,00,750 metric tonnes per annum (MTPA) for polyester yarn, 14,000 MTPA for cotton yarn and 9,000 MTPA for industrial drawn yarn as on December 31, 2023. Over the years, the company has scaled up its production with increase in its installed capacity.

### Key financial indicators (Audited)

| Group's Consolidated Financials | 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 |
| | | | | | March 20, 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 |
|---|---|---|---|---|---|---|
| **NA** | **Issuer Ratings** | NA | NA | NA | - | [ICRA]A- (Stable) |

*Source: Company*

**Annexure II: List of entities considered for consolidated analysis:** Not applicable

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

## ICRA Limited

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