

December 30, 2024

SVG Fashions Private Limited: Ratings reaffirmed

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	25.80	16.75	[ICRA]A (Stable); reaffirmed
Long-term/short-term non fund-based facilities	3.20	1.70	[ICRA]A (Stable)/[ICRA]A2+; reaffirmed
Long-term/short-term – Unallocated Limits	0.00	10.55	[ICRA]A (Stable)/[ICRA]A2+; reaffirmed
Total	45.00	45.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has taken a consolidated view of SVG Fashions Private Limited (SVGFPPL), which includes one of its subsidiaries and an associate company, 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guarantees towards the bank facilities of Laxmi Technical Textiles Private Limited (rated [ICRA]BBB/Stable/A3+ Withdrawn) and Raj Rayon Industries Limited.

The reaffirmation of the ratings reflects the healthy operating performance of SVGFPPL in FY2024 and operationalisation of the manufacturing facilities of Raj Rayon Industries Limited (RRIL) in H2 FY2023, leading to a substantial revenue growth in FY2024. ICRA expects RRIL's operations to further ramp up in FY2025 with planned operationalisation of continuous polymerisation and spinning capacities in Q4 FY2025, aided by the extensive experience of the promoters in the man-made fibre industry. SVGFPPL recorded revenue of ~Rs. 278 crore in FY2024, supported by 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 sizeable free cash and liquid investments and stable operational profile. RRIL commenced its operations in Q3 FY2023 and recorded revenue of ~Rs. 745 crore in FY2024 with an operating margin of ~3.7%. With the planned operationalisation of the ongoing capex, RRIL's revenue is estimated to grow further in FY2025, although the margins would remain a key monitorable as the company has recorded an OPM of ~1.3% in H1 FY2025. Overall, the Group is expected to record a moderate growth in its revenue, which is likely to be more than Rs. 1,150 crore in FY2025 from ~Rs. 1,071 crore in FY2024 (with the major portion of the growth coming from RRIL) while maintaining an overall operating margin of ~8%. The Group's total debt/OPBIDTA is likely to stand at ~1.8 times in FY2025, but debt coverage metrics are estimated to remain adequate with interest cover of more than 5.5 times and DSCR of more than 2.0 times in FY2025. ICRA also considers sizeable free cash and liquid investments worth ~Rs. 145 crore as on March 31, 2024, which supports 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 resulted in significant operating synergies for the Group.

The ratings, however, continue to remain constrained by the 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 has further resulted in a significant backward integration and operating synergies for the Group. Moreover, SVGFL (Standalone) continues to have a diversified customer base with the top 10 customers accounting for ~30% of its revenues in FY2023 and FY2024. 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 0.3 times as on March 31, 2024 and Total Debt/OPBDITA of 1.6 times in FY2024 on the back of healthy accruals and profits. The Group's debt coverage metrics remain comfortable, though moderated in FY2024 with an interest cover of 6.5 times and DSCR of 2.7 times in FY2024 vis-à-vis 17.6 times and 8.9 times, respectively in FY2023 owing to planned addition of debt to fund the ongoing capex and phased scale-up of RRIL's operations. Going forward, its gearing is likely to remain comfortable at below 0.5 times with an 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 have some bearing on the debt protection metrics – The Group is nearing completion of its sizeable phase 1 capex of Rs. 135 crore in RRIL towards operationalisation of its plant (likely to be completed by January 2025), funded by term debt of Rs. 185 crore (~Rs. 116 crore drawn down till March 31, 2024). This led to a moderation in the capital structure of the Group in FY2024. With the likely start of the partly debt-funded phase 2 capex, after completion of phase 1, ICRA expects moderation in the Group's debt protection metrics to some extent.

Irrevocable and unconditional corporate guarantees to Group companies may impact liquidity – SVGFPL has extended corporate guarantees to its Group companies, 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. 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 cash and free liquid investments of more than ~Rs. 145 crore as on March 31, 2024. The Group is likely to incur capital expenditure of around Rs. 30 crore in FY2025, largely towards completion of the ongoing capacity enhancement at RRIL and plant modernisation of SVGFPL, mostly financed by term debt. The Group also has debt repayment obligation worth ~Rs. 24 crore in FY2025 and ~Rs. 32 crore in FY2026. Against this, the Group is estimated to generate cash flow from operations of more than Rs. 55 crore and Rs. 75 crore, respectively in FY2025 and FY2026. The average utilisation of sanctioned working capital limits of SVGFPL stood at ~13% for last 15 months ending in June 2024, 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, coverage metrics, liquidity profile and earnings deteriorate on a sustained basis. 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 Textiles - Fabric Textiles - Spinning
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 and Raj Rayon Industries Limited

About the company

Established in 1994, SVG Fashions Private Limited (previously known as Deepak Suitings Limited) is a part of the diversified SVG Group. The company was initially involved in trading of woven fabrics. Over the years, it diversified into manufacturing circular knitted fabric, embroidered fabric, furnishing fabric and readymade garments. The company is fully integrated for the entire cycle of fabric production, enabling it to supply higher value-added fabrics. The company has manufacturing units in Daman and Ankleshwar. The company has reputed brands including Adidas, Puma and Reebok among its key customers. Raj Rayon Industries Limited is a listed company with a market cap of more than Rs. 1,250 crore as of November 2024 and is mainly involved in manufacturing of polyester chips, partially oriented yarn (POY) and polyester texturised yarn (PTY)/drawn texturised yarn (DTY). Laxmi Technical Textile Private Limited manufactures warp grey knitted fabrics mainly from bright yarn.

Key financial indicators (audited)

SVGFPPL Consolidated	FY2023	FY2024
Operating income	539	1072
PAT	26.2	48.1
OPBDIT/OI	11.5%	8.4%
PAT/OI	4.9%	4.5%
Total outside liabilities/Tangible net worth (times)	0.5	0.6
Total debt/OPBDIT (times)	1.9	1.6
Interest coverage (times)	17.6	6.5

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

SVGFPPL Standalone	FY2023	FY2024
Operating income	301	278
PAT	40.7	43.2
OPBDIT/OI	19.9%	21.0%
PAT/OI	13.5%	15.6%
Total outside liabilities/Tangible net worth (times)	0.2	0.1
Total debt/OPBDIT (times)	0.3	0.1
Interest coverage (times)	46.7	28.6

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

Current (FY2025)				Chronology of rating history for the past 3 years					
FY2025				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Dec 30, 2024	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long term	16.00	[ICRA]A (Stable)	20-Sep-23	[ICRA]A (Stable)	06-May-22	[ICRA]A (Negative)	-	-
				07-Aug-23					
Term Loan	Long term	16.75	[ICRA]A (Stable)	20-Sep-23	[ICRA]A (Stable)	06-May-22	[ICRA]A (Negative)	-	-
				07-Aug-23					
Non fund-based facilities	Long Term/Short term	1.70	[ICRA]A (Stable)/ [ICRA]A2+	20-Sep-23	[ICRA]A (Stable)/ [ICRA]A2+	06-May-22	[ICRA]A (Negative)/ [ICRA]A2+	-	-
				07-Aug-23					
Unallocated Limits	Long Term/Short term	-	-	-	-	06-May-22	[ICRA]A (Negative)/ [ICRA]A2+	-	-
Unallocated Limits	Long Term/Short term	10.55	[ICRA]A (Stable)/ [ICRA]A2+	-	-	-	-	-	-

Complexity level of the rated instrument

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
Long-term/short-term Unallocated Limits	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 analyzing 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, is 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 Loans-I	FY2019	7-8%	FY2026	1.75	[ICRA]A (Stable)
NA	Term Loans-II	FY2025	8-9%	FY2030	15.00	[ICRA]A (Stable)
NA	Non fund-based facilities	NA	NA	NA	1.70	[ICRA]A (Stable)/[ICRA]A2+
NA	Unallocated	NA	NA	NA	10.55	[ICRA]A (Stable)/[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	SVGFP'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

Source: Company data; As on March 31, 2024

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@icraindia.com

Lakhan Kumar Agarwal
+91 8882375734
lakhan.agarwal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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