January 29, 2025

Suraj Industries: Ratings downgraded to [ICRA]BBB (Stable)/[ICRA]A3+

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	3.00	[ICRA]BBB (Stable); downgraded from [ICRA]A-(Stable)
Long-term fund based –Term Loans	14.02	-	-
Short-term non-fund based limits	3.00	-	-
Long-term –Unallocated Limits	17.98	-	-
Long-term/short-term – Unallocated Limits	-	62.00	[ICRA]BBB (Stable)/[ICRA]A3+; downgraded from [ICRA]A-(Stable)/[ICRA]A2+
Total	**65.00**	**65.00**	

**Instrument details are provided in Annexure-I*

Rationale

To arrive at the ratings of Suraj Industries (SI), ICRA has changed the analytical approach from a consolidated view to a standalone view due to restructuring of the entities, which were previously considered for consolidation. During the last surveillance exercise, ICRA had 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 and corporate guarantee given by SRVPPL and SI towards the bank facilities of SRVS and corporate guarantee given by SRVPPL towards the bank borrowings of SI. As of now, there are no corporate guarantees among the three entities and going forward, in the near-to-medium term, there will be no managerial, operational and financial linkages between SI and SRVPPL.

The downgrade in the ratings considers the sharp decline in the top line of the entity from ~Rs. 300 crore in FY2023 to ~Rs. 209 crore in FY2024, which is further likely to decline significantly in FY2025, as the entity has only achieved revenue of ~Rs. 51 crore in 9M FY2025 owing to restructuring and division of the yarn and fabric manufacturing business among the partners. Hence, from FY2025 SI has been manufacturing fabric only. The profitability of the entity, at an absolute level, is also likely to be significantly impacted, given the sharp decline in the entity's top line.

The ratings derives comfort from the firm's comfortable capital structure with a gearing of 0.1 times as on March 31, 2024 and healthy debt protection metrics, which are likely to remain such owing to low reliance on external debt. The ratings continue to favourably factor in the extensive experience of the promoters of SI in the textile industry as well as its established customer base. The ratings also consider the strong liquidity profile of the firm, as reflected by low utilisation of the working capital limits and healthy cash and bank balance of ~Rs. 22 crore as on March 31, 2024.

The ratings continue to remain constrained by the vulnerability of the firm's revenue and earnings to fluctuations in raw material prices (crude derivatives) and finished goods prices. Additionally, the ratings factor in the intense competition in the industry and the commoditised nature of products, which limit the firm's pricing power. Further, ICRA notes the inherent risks associated with the partnership firm, including the risk of capital withdrawals, which could impact the firm's liquidity position and remains a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that the firm's financial risk profile will continue to remain comfortable over the medium term on the back of healthy credit metrics, strong liquidity and limited capital expenditure.

Key rating drivers and their description

Credit strengths

Comfortable capital structure and healthy debt protection metrics – The firm continues to maintain a conservative capital structure with a gearing of 0.1 times and TOL/TNW of 0.2 times as on March 31, 2024, supported by negligible debt-funded capex in the recent past and low utilisation of sanctioned working capital facilities. The debt coverage metrices, as reflected by an interest coverage and TD/ OPBDITA of ~28 times and ~1.28 times, respectively remain healthy. ICRA expects the firm to continue to maintain a conservative capital structure and healthy debt coverage metrics, despite a decline in the operating scale, aided by stable cash accruals, negligible reliance on external borrowings and no planned debt-funded capital expenditure.

Strong liquidity as reflected by low utilisation of working capital limits and healthy cash and bank balance – The firm's liquidity has remained strong, as reflected by its cash and bank balance of ~Rs. 22 crore as on March 31, 2024, and supported by almost nil working capital utilisation in FY2024. ICRA also notes that the firm has repaid its term debt of Rs. ~7 crore (o/s as on March 31, 2024) in FY2025. ICRA expects the firm's liquidity to remain adequate in the near term due to no term debt repayment obligation, low working capital requirement due to decline in operations and no major capex plans except for ~Rs. 1.5-2 crore capex in FY2025 to be incurred on adding knitted machines and capacity enhancement from internal accrual.

Established customer base with wide distribution network – The firm is a prominent player in the textile industry and has an established 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 established long-term relationship with key customers, reflected in repeat orders, provides significant revenue visibility to the firm.

Extensive experience of promoters/partners – The firm's key promoter/partner, Mr. Sudhir Shah, along with his son, Mr. Deep Shah, has substantial experience spanning over three decades in the textile industry. ICRA expects the experience of the promoter to continue to support the firm.

Credit challenge

Sharp decline in the scale of operations – The firm's revenue has experienced a sharp decline in the top line of the entity from ~Rs. 300 crore in FY2023 to ~Rs. 209 crore in FY2024, which is further expected to decline significantly in FY2025 as the entity has only achieved revenue of ~Rs. 51 crore in 9M FY2025 owing to restructuring and division of the yarn and fabric manufacturing business among the partners. As per the restructuring/ division of the businesses, since November 2023, SRV Polytex Private Limited would continue to run the yarn manufacturing business and SI will only be engaged in the fabric manufacturing business. As a result, SI will now focus solely on fabric production, and ICRA projects that the scale of operations will only improve gradually in line with the current capacity and planned expansions. The profitability of the entity, at an absolute level, is also likely to be significantly impacted in FY2025, given the sharp decline in the entity's top line. SRV Synthetics (SRVS), currently (after the restructuring) held equally by Mr. Sudhir Shah, and his son Mr. Deep Shah, does not have any operations and only receives rental income (hiring charges for machines) from SI.

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

Intense competition and commoditised nature of products – 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 and fabric are commodities with limited scope for product differentiation and market-determined prices. These limit the pricing flexibility available to the firm.

Risk of capital withdrawal from the partnership firms – SI is a partnership firm. This exposes it to the risk of capital withdrawal by the partners, which could adversely impact the net worth base, capital structure, debt coverage metrics and liquidity position. Any sizeable capital withdrawal, leading to weakening of the financial risk profile of the firm, could exert pressure on the ratings and remains a key monitorable.

Liquidity position: Adequate

SI's liquidity remains adequate, characterised by free cash and buffer from undrawn working capital facilities aggregating to ~Rs. 25 crore as on March 31, 2024, with commensurate drawing power. The firm's average utilisation of working capital facilities stood at almost nil of the sanctioned limits of Rs. 3 crore in FY2024, which provides comfort. The entity's cash flow from operations remained positive over the last couple of years. ICRA expects the same to remain positive, going forward, but will moderate owing to the significant decline in the scale of operations. ICRA also notes that the firm does not have any major planned debt-funded capital expenditure over the medium term, except for Rs. 1.5-2 crore capex in FY2025 (out of which ~Rs. 1 crore has already been incurred for adding knitting machines), to be incurred on adding knitted machines and capacity enhancement, from internal accruals. There are no term debt repayment obligations as of December 31, 2024.

Rating sensitivities

Positive factors – ICRA could upgrade the firm's ratings in case of a sustained improvement in revenues and profitability while maintaining comfortable liquidity and debt coverage metrices.

Negative factors – Pressure on the ratings could emerge if a further decline in revenue and/or profitability results in 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 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology] [Textile (Fabric)]
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Suraj Industries is a partnership firm, operated and managed by Mr. Sudhir Shah and his son, Mr. Deep Shah. However, the profit-sharing ratio of Mr. Sudhir Shah along with his son, Mr. Deep Shah is 50%, while the balance is with Mr. Rajendra Shah and his son Mr. Chintan Shah, as before. The firm is in the manufacturing of fabric (Lycra) from partially oriented yarn (POY), fully drawn yarn (FDY) and drawn texturised yarn (DTY). It currently operates one factory at Silvassa. The firm has an installed capacity of 191 knitting machines with a total production capacity to manufacture 350 tonne fabric/month as on December 31,2024.

Key financial indicators (audited)

Suraj Industries (Standalone)	FY2023 (audited)	FY2024 (audited)
Operating income	300	209
PAT	4	8
OPBDIT/OI	3.4%	3.2%
PAT/OI	1.2%	3.8%
Total outside liabilities/Tangible net worth (times)	0.4	0.2
Total debt/OPBDIT (times)	2.7	1.3
Interest coverage (times)	12.2	28.2

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 (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Jan 29, 2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
					Oct 26, 2023	Jul 20, 2023	Apr 25, 2022	-
1	Cash Credit	Long-term	3.00	[ICRA]BBB (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	Term Loans	Long-term	-	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
3	Unallocated Limits	Long-term	-	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
4	Non-fund based limits	Short-term	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
5	Unallocated Limits	Long-term/Short-term	62.00	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – working capital 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 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	Long-term fund based –Working capital facilities	NA	NA	NA	3.00	[ICRA]BBB(Stable)
NA	Long-term/short-term –Unallocated Limits	NA	NA	NA	62.00	[ICRA]BBB(Stable)/[ICRA]A3+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis - NA

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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.

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