February 07, 2025

Sagar Manufacturers 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	260.00	289.00	[ICRA]A-(Stable); reaffirmed; assigned for enhanced amount
Long Term - Fund Based Term loan	442.29	559.47	[ICRA]A-(Stable); reaffirmed; assigned for enhanced amount
Short Term – Non-Fund Based	16.00	16.00	[ICRA]A2+; reaffirmed
Long Term/Short Term – Unallocated	29.90	0.00	-
Total	**748.19**	**864.47**	

**Instrument details are provided in Annexure I*

Rationale

The reaffirmed ratings factor in Sagar Manufacturers Private Limited's (SMPL) large spinning capacity of ~2 lakh spindles and its consistently healthy capacity utilisation levels of ~90%, which provide benefits of economies of scale. ICRA also notes that SMPL's profit margins are supported by its access to fiscal incentives. The ratings further derive comfort from SMPL's established position in the business-to-business (B2B) segment in both domestic and export markets, which, coupled with good product quality and diverse product offerings under the yarn category, result in repeat orders. The ratings also favourably factor in the proximity of SMPL's plant to the cotton belt of Madhya Pradesh (MP), Maharashtra and Gujarat, which result in savings on transportation costs.

Over the years, SMPL has been successful in ramping up its operations, which led to healthy compounded annual growth rate (CAGR) of 18% during FY2018-FY2024. SMPL reported a YoY revenue decline of 8% (at standalone level) in FY2024, as the company witnessed operational issues due to shipping delays induced by the Red Sea crisis, slowdown in demand, driven by inflationary pressures due to the ongoing geopolitical conflicts, and softening of yarn realisations. This, along with initial costs to operationalise and stabilise the polycotton unit in FY2024 impacted the entity's profitability levels with decline in operating profit margin (OPM) to 10% in FY2024. That said, the company has reported healthy revenue growth of 19% in H1 FY2025 with top line of Rs. 798 crore (standalone), supported by healthy volume sales and steady realisations. The OPMs have improved to 11.4% in H1 FY2025, indicating a modest recovery of gross contribution margins. With steady demand conditions and improving spreads between cotton yarn and cotton, the company is expected to report healthy net cash accruals in FY2025.

These strengths are, however, partially offset by SMPL's moderate financial profile, characterised by elevated debt levels resulting from regular large debt-funded capital expenditure (capex) towards capacity expansions. ICRA notes that the company is expected to incur sizeable capex of Rs. 240 crore in FY2025 and FY2026 towards setting up a manufacturing and processing unit of finished fabrics, which would be funded via debt of Rs. 171 crore, equity contribution from promoters of Rs. 5 crore and the balance of Rs. 65 crore from internal accruals. While the new capex initiative would increase the debt levels in the near term, healthy revenues and profits generated from the spinning business are expected to adequately support the financial profile over the medium term.

Sagar Multispecialty Hospital, operating under SMPL's subsidiary, commercialised operations in January 2024. The hospital achieved breakeven at the EBITDA level in FY2024, despite its first year of operations. The company's ability to timely and profitably ramp-up the hospital's operations would be the key rating factor. ICRA notes the hospital's modest cash flows at present and expects SMPL to provide need-based funding support to SSRPL.

The ratings are also tempered by the company's exposure to pricing pressure due to the non-integrated nature of operations and the intensely competitive nature of the cotton-spinning industry. ICRA also notes that cotton stocking during the harvest season exposes the company to fluctuations in cotton and cotton yarn prices during the non-harvest period, with fixed procurement costs and fluctuating yarn realisations. Nevertheless, the company's lower-than-industry-average cotton stocking mitigates the risk to some extent.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that SMPL will continue to exhibit healthy capacity utilisation levels. This, coupled with improvement in realisation levels, partly supported by proposed forward integration, would lead to improvement in the company's profitability levels in the medium term, consequently lending support to the debt coverage indicators.

Key rating drivers and their description

Credit strengths

Large-scale spinning operations – SMPL has 2,30,784 spindles as on January 31, 2025, which translate into a spinning capacity of 51,951 metric tonnes per annum (MTPA) and offers the company benefits of economies of scale and cost control. The company manufactures combed compact yarn, organic yarn, better cotton initiative (BCI) yarn, slub yarn and conventional combed yarn across a wide range of counts. Since the commencement of operations of its Phase-6, the company has started producing poly cotton as well. The entity's ability to manufacture diversified products across various counts and varieties provides flexibility to switch among product offerings and retain some pricing power, given the otherwise commoditised nature of yarn. Besides, its considerable presence in the B2B segments reduces expenses related to intermediaries.

Proximity to cotton belt, healthy ramp-up in scale of operations – SMPL's manufacturing facility is in Raisen district of Madhya Pradesh, 30 km away from Bhopal, and is well connected by NH-12. It is situated close to the cotton belt of Madhya Pradesh, Maharashtra, and Gujarat. The proximity to the cotton belt reduces its transportation costs and supports the operating profitability. Over the years, SMPL has continuously expanded its spinning capacity and has been able to ramp up the operations quickly, as reflected in healthy capacity utilisation level of close to 95% consistently. This, in turn, translated to a healthy CAGR of 18% during FY2018-FY2024. SMPL reported a YoY revenue decline of 8% (at standalone level) in FY2024 as the company witnessed operational issues due to shipping delays induced by the Red Sea crisis, slowdown in demand, driven by inflationary pressures due to the ongoing geopolitical conflicts, and softening of yarn realisations. However, the company is expected to report healthy growth of 9% in FY2025 (on a standalone level) with steady realisations and heathy volume offtake.

Established market position – SMPL has established position in domestic and several export markets like Bangladesh, Mauritius, Portugal, and Egypt. Exports accounted for 36% of SMPL's yarn sales in H1 FY2024. Its domestic clients include many large and reputed textile companies and there is no involvement of intermediaries. The company also has long relationships with its customers, which reflect SMPL's good product quality and result in repeat orders.

Credit challenges

Leveraged capital structure; moderation in financial profile in FY2025 – Given the large debt-funded capex towards capacity expansion in the past and the working capital-intensive nature of operations, SMPL's reliance on external borrowings has remained high, resulting in a leveraged capital structure with a gearing of 1.9 times and total outside liabilities vis-à-vis tangible net worth of 2.1 times as on March 31, 2024. Besides, the company is undertaking a Phase-7 expansion project in H2 FY2025 to set up 56 knitting machines as well as a dyeing processing unit at a total cost of Rs. 241 crore, which would be funded via debt of Rs. 171 crore, equity contribution from promoters of Rs. 5 crore and the balance of Rs. 65 crore from internal accruals. While the profitability in FY2025 is expected to improve due to higher gross contribution margin emanating from improvement in price differential between cotton yarn and cotton, SMPL's debt coverage indicators are expected to remain at moderate levels in FY2025. Nonetheless, these are expected to recover in the medium term on the back of improving operating leverage due to forward integration and the ramp-up of hospital operations. This remains a key rating monitorable.

Pricing pressure owing to non-integrated operations and fragmented industry structure – The spinning industry is highly fragmented with a significant share of unorganised players. While SMPL manufactures a wide variety of yarns with different count range, its presence predominantly in the yarn segment limits its ability to pass on the increase in raw material costs. However, with expansion of knitting capacities in the future and venture in fabric dyeing processes, is expected to support the margins of the company in the medium term.

Exposure to volatility in cotton/yarn prices – The requirement of stocking cotton during the harvest season results in working-capital intensive operations and exposes SMPL's profit margins to fluctuation in cotton prices. SMPL's OPM declined to 10.0% in FY2024 due to weakening gross contribution margin, though it improved to 11.4% in H1 FY2024, indicating modest recovery of gross contribution margins coupled with cost-saving measures undertaken by the company.

Liquidity position: Adequate

SMPL's liquidity position is adequate supported by healthy cash flow from operations and operationalisation of hospital. Besides, the liquidity position is supported by long residual tenure of loans of seven years. SMPL's average utilisation of the sanctioned Rs. 260 crore working capital limits stood at 79% during August 2023 to November 2024. The company's sanctioned working capital limits have increased to Rs. 289 crore in January 2025 to meet the incremental working capital requirements with adequate buffer. The company plans to incur capex of ~Rs. 240 crore towards setting up finished fabrics unit FY2025 and FY2026. The company has incurred Rs. 15 crore till December 2024 towards the capex. These projects would be funded by debt of ~Rs. 171 crore and the balance via internal accruals and equity contribution from the promoters. The cash generation from the business is likely to remain sufficient against debt repayments of Rs. 59.3 crore in FY2025 and Rs. 69.5 crore in FY2026. No further sizeable capex is expected to be incurred towards the hospital in the near-to-medium term.

Rating sensitivities

Positive factors – ICRA could upgrade SMPL's ratings if there is a substantial growth in its scale of operations and profits, aided by a successful ramp-up of capacities, leading to an improvement in credit metrics and liquidity position.

Negative factors – Pressure on the ratings may emerge if any sharp decline in revenues and profits or any large debt-funded capex adversely impacts its credit metrics or liquidity position. Specifically, SMPL's consolidated debt service coverage ratio (DSCR) remaining below 1.6 times on a sustained basis, would be a negative factor.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles – Spinning Textiles - Fabric Hospital
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SMPL along with its wholly-owned subsidiary, SSRPL, which has set up a 300-bed hospital in Bhopal. As on March 31, 2024, the company had one subsidiary, enlisted in Annexure-2.

About the company

SMPL, incorporated in 2010, is promoted by the Agrawal family of Bhopal. It is a part of the Sagar Group and is involved in cotton yarn spinning in the counts of 20-40s. Its manufacturing facility is located in Raisen, MP and has an installed capacity of ~2,30,000 spindles as on March 31, 2024. The company commenced its operations in 2013 with a capacity of 33,120 spindles (7,000 MT). It undertook phased capacity expansion, which led to an increase in the spinning capacity to 33,330 MTPA, running three shifts at 100% utilisation. It produces 100% cotton yarn and polycotton yarn under the brand name, SAGAR YARN. Besides the spinning capacity, the company has 30 knitting looms.

It has one subsidiary, SSRPL which has set up a 300-bed super multi-specialty hospital at Hoshangabad Road in Bhopal. The hospital started full-fledged operations in January 2024, with its current operational bed capacity of 167.

The Sagar Group caters to infrastructure, healthcare, education and textiles verticals. The Group launched its first real estate project in 1983. In 2001, the Group forayed into the field of education with its flagship education venture, Sagar Public School, in Bhopal. At present, the Group is operating six schools, three engineering institutes, one B-school, two pharmacy institutes, several real-estate projects and a spinning mill in Bhopal.

Key financial indicators (audited)

SMPL (consolidated)	FY2023	FY2024
Operating income	1,578.4	1,461.5
PAT	62.0	23.4
OPBDIT/OI	11.0%	10.0%
PAT/OI	3.9%	1.6%
Total outside liabilities/Tangible net worth (times)	1.5	2.1
Total debt/OPBDIT (times)	3.0	5.4
Interest coverage (times)	7.2	3.2

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

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb 07, 2025	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long term	289.00	[ICRA]A- (Stable)	Nov-27-23	[ICRA]A- (Stable)	Jun-22-22	[ICRA]A- (Stable)	Jun-18-21	[ICRA]A- (Stable)
				-		Oct-06-22	[ICRA]A- (Stable)	Jan-10-22	[ICRA]A- (Stable)
Term Loans	Long term	559.47	[ICRA]A- (Stable)	Nov-27-23	[ICRA]A- (Stable)	Jun-22-22	[ICRA]A- (Stable)	Jun-18-21	[ICRA]A- (Stable)
				-		Oct-06-22	[ICRA]A- (Stable)	Jan-10-22	[ICRA]A- (Stable)
Credit exposure Limit	Short term	16.00	[ICRA]A2+	Nov-27-23	[ICRA]A2+	Jun-22-22	[ICRA]A2+	Jun-18-21	[ICRA]A2+
				-	-	Oct-06-22	[ICRA]A2+	Jan-10-22	[ICRA]A2+
Unallocated Limit	Long term and short term	-	-	Nov-27-23	[ICRA]A- (Stable)/ [ICRA]A2+	Oct-06-22	[ICRA]A- (Stable)/ [ICRA]A2+	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long Term - Fund Based Cash Credit	Simple
Long Term - Fund Based Term loan	Simple
Short Term – Non-Fund Based	Very 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	-	-	-	289.00	[ICRA]A-(Stable)
NA	Term loans	FY2015	8.5-9.0%	FY2034	559.47	[ICRA]A-(Stable)
NA	Credit exposure limit	-	-	-	16.00	[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	ownership	Consolidation approach
Sagar Manufacturing Private Limited	Rated Entity	Full Consolidation
Sagar Services & Resources Private Limited	100.00%	Full Consolidation

Source: Company

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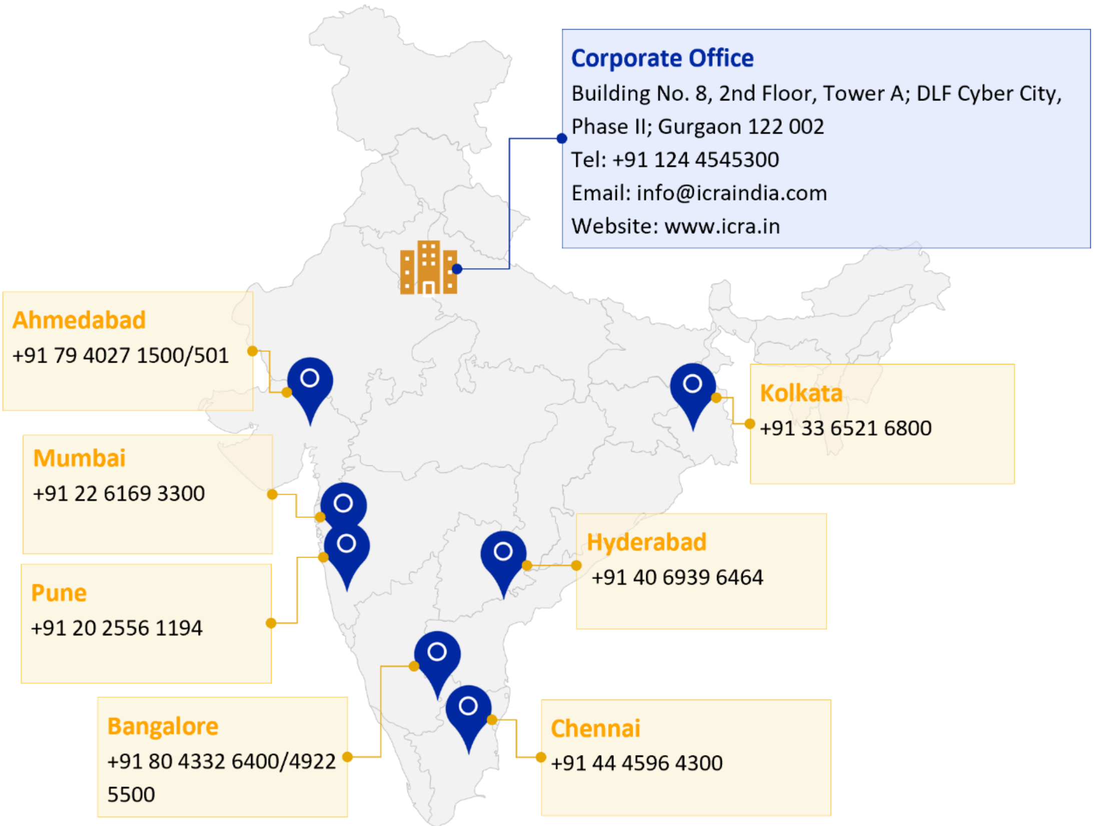

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