

April 07, 2025

Sanathan Polycot Private Limited: Ratings upgraded to [ICRA]A; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – Fund-based – Term loan	950.00	650.00	[ICRA]A; upgraded from [ICRA]A-; outlook revised to Positive from Stable
Long-term – Fund-based facilities	-	300.00	[ICRA]A; upgraded from [ICRA]A-; outlook revised to Positive from Stable
Issuer Rating	-	-	[ICRA]A; upgraded from [ICRA]A-; outlook revised to Positive from Stable
Total	950.00	950.00	

*Instrument details are provided in Annexure I

Rationale

The rating action for Sanathan Polycot Private Limited (SPPL) factors in the change in the rating approach to a consolidated view, along with its parent, Sanathan Textiles Limited (STL; rated [ICRA]A/Positive/[ICRA]A2+). Earlier, ICRA had done a standalone credit profile assessment of the entity with rating upliftment on the basis of the expected funding support from its parent company, STL.

The change in the rating approach factors in ICRA's enhanced understating of the operational linkages between SPPL and its parent. ICRA understands that SPPL will operate as an extended arm of STL to cater to its existing customer base in northern region of India in a more cost-efficient manner. Moreover, there exists significant operational, financial and management linkages between the two companies. SPPL is likely to benefit from the operational synergies ensuing from STL's cost competitive operations, its established market position and supplier network. The ongoing capital expenditure (capex) under SPPL is strategically important for the parent company as it will enhance its capacity for manufacturing polyester yarn by ~2,55,000 million tonnes per annum (MTPA) by FY2026.

The Positive outlook on the rating reflects ICRA's expectations that the revenues and profit margins of the Sanathan Group are likely to improve, going forward, led by the commercialisation of a new plant by the end of Q1 FY2026. Post the completion of the ongoing expansion project in SPPL, the group's capacity will double by the end of Q1 FY2026 and will help the company to further strengthen its operating profile on the back of better product mix and proximity to both raw material sources and consumption centres. The management also expects the new plant to report better operating profit margins given the savings in freight (due to proximity to customers) and fuel costs (due to usage of rice husk). SPPL's ability to effectively and profitably ramp up the capacity would be a key rating monitorable. ICRA, however, notes STL's established relationships with customers and suppliers, which will help the company in receiving regular and repeat orders and, in turn, sweat its assets at optimal capacity utilisation rates.

The rating continues to factor in the group's position as one of the leading players in polyester yarn manufacturing in India and the extensive experience of its promoters in the industry. The ratings also derive strength from its diversified product portfolio, established distribution network and location specific advantages owing to its proximity to raw material sources. STL successfully completed its initial public offer (IPO) in December 2024 and mobilised funds worth Rs. 400.0 crore, of which Rs. 300 crore was used for prepayment of debt and the balance for general corporate purposes. Notwithstanding this, the

group's debt coverage indicators are expected to remain moderate given the large debt-funded capex of Rs. 2,321 crore (revised from Rs. 2,121.0 crore) being undertaken, though the same is expected to improve as the new capacity ramps up. ICRA also draws comfort from the fact that the group does not have any major repayment obligations in the next two years (FY2026-FY2028).

The rating also remains constrained by the susceptibility of the company's profit margins to the cyclical nature inherent in the textile sector and the volatility in crude oil linked raw material prices and realisations. In FY2023 and FY2024, the company's profitability moderated owing to significant exports of polyester yarn by Chinese manufacturers at cheaper rates in the Indian market. The OPM, however, improved marginally in 9M FY2025 with the implementation of the Quality Control Order by the Government of India from October 2023, along with improvement in demand. The OPM and NPM stood at 8.6% and 5.2%, respectively, in 9M FY2025; although yet to reach the pre-pandemic level.

The rating is also constrained by the intense competition and the fragmented nature of the yarn industry, which exerts pricing pressure. The company further 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. ICRA, however, notes that the company since FY2025 has started hedging its open exposure through forward contracts.

Key rating drivers and their description

Credit strengths

Status as one of the leading manufacturer of polyester yarn in India; improvement in operating profile expected post the completion of ongoing capacity expansion project – The company is among the leading players in polyester yarn manufacturing in India, with an annual installed capacity of around 2,00,750 MTPA as on December 31, 2024. It is also engaged in manufacturing of cotton yarn and industrial drawn yarn with annual capacity of 14,000 MTPA and 9,000 MTPA, respectively, as on December 31, 2024. The capacity utilisation has remained above 95% during the last three years. Going forward, with the commercialisation of new plant for manufacturing polyester yarn and cotton yarn in SPPL, its production capacity will increase further by around 2,55,000 MTPA for polyester yarn by Q1 FY2026 and around 10,950 MTPA for cotton yarn by the end of FY2027. This will further improve the operating profile of the company, given the economies of scale, better product mix and location specific advantages associated with the expansion project. In the medium term, increasing application of polyester yarn by end-users is expected to drive market growth. The management also expects the new plant to report better operating profit margins given the savings in freight (due to proximity to customers) and fuel costs (due to usage of rice husk).

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), and twisted yarn, among others. It has applications in varied industries such as apparel, sports, athleisure, active and innerwear, home textiles, and technical textiles travel & leisure, logistics & mobility, among others. The customer profile remained diversified with the top-10 customers accounting for around 24% of revenues in FY2024 and 24% in 9M FY2025. Polyester yarn continues to account for more than 75% of revenues in FY2024 and 9M FY2025, followed by cotton yarn, which contributed 19% to revenues in FY2024 and 9M FY2025.

Extensive experience of the promoters in the textiles industry – Mr. Paresh Kumar Dattani, the Chairman and Managing Director of the company, has over four decades of experience in the textile 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, also has extensive experience of more than 36 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 location for polyester yarn manufacturers in India due to the 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 yarn manufacturers in western Gujarat. The upcoming unit in Punjab is also in the vicinity of raw material sources in the Panipat region as well as to the key consumption centres of Ludhiana Meerut, Amritsar, Panipat and the National Capital Region (NCR), imparting a competitive edge to the company.

Credit challenges

Large debt-funded capex being undertaken – In SPPL, the management is under process of setting up polyester plant at Wazirabad (Punjab) with an installed capacity of 2,55,000 MPTA at an estimated cost of Rs. 1,902.5 crore, revised from Rs.1,702.5 crore due to increase in the scope of the project. The project cost of Rs.1,702.5 crore funded through term loan of Rs. 790.0 crore, external commercial borrowings (ECB) of Rs. 444.2 crore and the balance Rs. 468.3 crore through contributions from STL. The additional cost will be funded through promoter contribution by way of equity infusion. Till March 31, 2025, the company incurred around of ~Rs.1,700 crore towards the project and the balance ~Rs. 200 crore will be incurred in Q1 FY2026. Moreover, with delay in import of machineries as negotiations took longer than anticipated along with delay in civil work, operations are expected to commence by Q1FY2026 against the earlier envisaged timeline of March 2025. The company is exposed to offtake risks, however the unit's proximity to the textile hub of Ludhiana, related savings in freight costs and lower working capital requirements for buyers in that region mitigate the risks to an extent. Ability of the company to effectively and profitably ramp up the capacity would be a key rating monitorable.

Moderate debt coverage indicators, expected to improve, going forward – STL successfully completed its IPO in December 2024 and mobilised funds worth Rs. 400 crore, of which Rs. 160 crore was utilised for repayment of debt in STL, Rs. 140 crore was utilised for prepayment of debt in SPPL, and balance towards general corporate purposes. Notwithstanding this, debt coverage indicators of the group are expected to remain moderate given the large debt-funded capex of Rs. 2,321 crore being undertaken, though the same is expected to improve as the new capacity ramps up. ICRA also draws comfort from the fact that the group does not have any major repayment obligations in the next two years (FY2026-FY2028).

Exposure to cyclicity inherent in the textile industry and raw material prices, which are linked to crude oil prices – The rating also remains constrained by the susceptibility of the company's profit margins to the cyclicity inherent in the textile sector, and to the volatility in crude oil linked raw material prices and realisations. The major raw materials consumed are Purified Terephthalic Acid (PTA) and Mono-Ethylene Glycol (MEG), both of which are derivatives of crude oil are continuously affected by the movement in crude oil prices. Part of the raw material requirement is also imported, which necessitates higher inventory holding. The company is further exposed to foreign exchange fluctuations as part of the funding for the expansion projects worth Rs.585.2 crore has been made through ECB loans. Besides, 15-20% of PTA is imported, which makes the company a net forex buyer. In FY2025, the company has changed its policy to hedge 100% of its exposure and will continue to do so, going forward.

Liquidity position: Adequate

The liquidity position of the group remains adequate, with cash and bank balance of ~Rs. 98.4 crore as on September 30, 2024, and unutilised fund-based limits of ~Rs. 126 crore as on December 31, 2024. The cash flows of the group are also expected to improve following the commencement of the new plant and ramp up thereof. The STL Group plans to incur capex of Rs. 200 crore towards the polyester plant in FY2026, funded through internal accruals, and Rs. 418.6 crore in FY2027 for setting up a cotton plant, funded through term loan of Rs. 301.1 crore and balance through internal accruals. Moreover, the utilisation of IPO proceeds of Rs. 300 crore towards the debt payments in STL and SPPL has led to reduction in debt for the group and, thus, repayment obligations have reduced. The group has an annual repayment of Rs. 31.0 crore in FY2026 and Rs. 54.3 crore in FY2027.

Rating sensitivities

Positive factors – The rating could be upgraded if the group is able to demonstrate profitable ramp up of the new capacities in a timely manner leading to sustained improvement in its operating profit margins and debt coverage indicators.

Negative factors – ICRA may revise the outlook to Stable in case the group is unable to profitably ramp up the new capacity in a timely manner, which adversely impacts its 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 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, 2024, STL has two wholly-owned subsidiary that has been enlisted in Annexure-II.

About the company

SPPL was incorporated in 2021 as a wholly-owned subsidiary of STL. Incorporated in 2005 by the Dattani family, STL is mainly engaged in manufacturing and exports of polyester yarn, cotton yarn, and yarn for technical textiles. The company's plant is situated at Surangi Village in Silvassa, and its corporate office is in Mumbai. The company's 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, 2024. Subsequently in December 2024, the company was listed on the stock exchange.

The management is undertaking a project for setting up cotton yarn and polyester yarn under SPPL. Its polyester plant is under construction at Wazirabad, Punjab, and its cotton plant at Surangi, Silvassa, Dadra and Nagar Haveli. The total envisaged cost of the projects is around Rs. 2,321 crore, to be funded by term loan and ECB of Rs. 1,535 crore and the balance Rs. 785 crore through promoter's contribution. The polyester yarn project is expected to commence operations by Q1 FY2026.

Key financial indicators (audited)

Group's Consolidated Financials	FY2023	FY2024	9MFY2025*
Operating income	3,331.9	2,958.4	2,266.4
PAT	153.2	133.0	116.8
OPBDIT/OI	8.4%	7.9%	8.6%
PAT/OI	4.6%	4.5%	5.2%
Total outside liabilities/Tangible net worth (times)	0.7	0.7	-
Total debt/OPBDIT (times)	1.0	1.6	-
Interest coverage (times)	9.1	7.8	-

Source: Company, ICRA Research; * Provisional numbers; 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 (FY2026)			Chronology of rating history for the past 3 years						
Instrument	Type	Amount rated (Rs. crore)	April 07, 2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
Term Loans	Long term	650.0	[ICRA]A (Positive)	-	-	Mar-26-24	[ICRA]A-(Stable)	-	-
Fund Based	Long term	300.0	[ICRA]A (Positive)	-	-	-	-	-	-
Issuer Ratings	Long term	-	[ICRA]A (Positive)	-	-	Mar-20-24	[ICRA]A-(Stable)	-	-
				-	-	Mar-26-24	[ICRA]A-(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term – Fund based - Term Loans	Simple
Long term – Fund based Limits	Simple
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	Term Loans	FY2024	8-9%	FY2033	650.0	[ICRA]A (Positive)
NA	Fund Based	NA	NA	NA	300.0	[ICRA]A (Positive)
NA	Issuer Ratings	NA	NA	NA	-	[ICRA]A (Positive)

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	STL Ownership	Consolidation Approach
Sanathan Polycot Private Limited	100%	Full Consolidation
Universal Texturisers Private Limited	100%	Full Consolidation

Source: Company

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 022 61143442
kinjal.shah@icraindia.com

Sakshi Suneja
+91 22 6169 3349
sakshi.suneja@icraindia.com

Taanisha Sharma
+91 22 6169 3344
taanisha.sharma@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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