

March 28, 2017

Saileela Processors Private Limited

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Fund Based Limits – Cash Credit	15.00	[ICRA]BB- (Stable); assigned
Fund Based Limits – Term Loan	11.00	[ICRA]BB- (Stable); assigned
Total	26.00	

**Instrument Details are provided in Annexure-1*

Rating Action

ICRA has assigned a long-term rating of [ICRA]BB- (pronounced ICRA double B minus) to the Rs. 26.00 crores of fund based limits of Saileela Processors Private Limited (SPPL) erstwhile Suzuki Synthetics Private Limited. The outlook on the long term rating is “Stable”.

Rationale

The assigned ratings take into account the debt funded capex being undertaken by the company for capacity expansion by 10% of current capacity which is scheduled to commence in Q1 FY2018. The capacity utilisation of the company had declined to 77% in FY2016 and further to 32% in 9M FY2017 before the takeover of the company by Bhilwara based Saileela Group from Bhilwara based Suzuki Group. The acquisition is expected to be synergistic to the Saileela Group due to limited presence in fabric processing, however the ability to operationally integrate and improve the capacity utilisation remains to be seen. With the debt funded capex, the debt levels are expected to increase and debt coverage indicators are likely to moderate in FY18, however, the risk will be somewhat mitigated by operational synergies and recovery in utilisation levels. The ratings further takes into account the limited value added nature of business with high competitive intensity of the fabric processing business which limits the profitability.

The ratings, however, draw comfort from the track record of the Saileela Group, who have taken over the company in FY2017, with two decade long operations in the textile sector on account on its group concerns- Saileela Synthetics Private Ltd and Karni Processors Pvt Ltd. The ratings further take into account limited inventory involvement and the presence of promoter group company in fabric weaving business which will ensure in steady order flow and healthy capacity utilization going forward.

Going forward, the ability of the company to scale up in a profitable manner and efficiently manage its working capital requirements thereby leading to an improvement in its profitability and return indicators would be the key rating sensitivities.

Key rating drivers

Credit Strengths

- Established track record of the Saileela Group with two decade long operations in the textile sector on account on its group concerns- Saileela Synthetics Private Ltd and Karni Processors Pvt Ltd
- Stable business model as the company is primarily engaged in processing of fabric on job work basis, wherein the raw material risk is borne by the customer, resulting in minimal price/inventory risk
- Presence of promoter group company in fabric weaving business which is likely to result in steady order flow and healthy capacity utilization; from FY18 onwards

Credit Weakness

- As the plant was not operational to its full capacity for the first six month in FY17 the operating income declined in 9M FY17 and stood at Rs 19.43 crore as per the provisional numbers as against Rs 24.93 crore in 9M FY16
- Debt funded capex will lead to increase in the gearing and slight deterioration of the coverage indicators in FY18, however, the same will translate to higher scale of operations and hence profitability.
- Low value added nature of business with high competitive intensity
- High debtor days with modest profitability and revenue growth has resulted in stretched liquidity as reflected in high utilization of working capital limits

Description of key rating drivers highlighted above:

The utilisation levels have been healthy over the years, however declined in FY16 to 77% from 95% in FY15 on account of the decline in the production. The company was taken over by the Saileela group in September 2016, and operations commenced from October 2016. Hence, on account of the takeover, the plant was not fully operational from April-October 2016 (only 2 stenters were operational instead of 5). The major raw materials consumed during textile processing are dyes and chemicals. The plant's location in Bhilwara – a major textile belt of Rajasthan and home to a number of dyes and chemical manufactures, provides it easy access to these raw materials/consumables. The company receives a credit period of ~90 days on the purchase of dyes and chemicals from its suppliers. For the job work sales, since SPPL is engaged in processing of cotton and polyester fabrics only on job work basis, it has limited exposure to the volatility in grey fabric prices as the grey fabric is supplied by the customer.

After the takeover, the customer base of SPPL is well diversified within the region; however, operations are geographically concentrated and the company is essentially a local player catering to the processing requirements of the local textile units with most of the job work being done for fabric manufacturers based out of Bhilwara,. Also, from FY18 onwards SPPL shall generate business from the group concerns – Saileela Synthetics Private Limited which is engaged in fabric weaving, hence, ensuring healthy order flows in the coming years

The company is in process of expanding its processing capacity through installation of new machines at a total project cost of Rs. 19.77 crore funded through Rs. 11.65 crore term loan, Rs 1.50 crore by equity share capital and unsecured loan of Rs 6.16 crore. The project is expected to be completed in Q1 FY2017. The total installed capacity will increase from 490 Lakh meter to 537 lakh meter. The company expects considerable volume increase in FY18. The fabric processing industry in India is highly fragmented and dominated by a large number of small scale unorganized players leading to high competition in the industry. Smaller standalone processing units are more vulnerable to intense competition and have limited pricing flexibility, which constrains their profitability as compared to larger integrated textile companies

who have better efficiencies. Furthermore, due to fragmented nature of the industry, ability of the company to pass on the increase in raw material prices to end customers is limited and is usually accompanied by a time lag.

About the Company:

Incorporated in 1988, Saileela Processors Private Limited (SPPL) (former Suzuki Synthetics Private Limited) primarily undertakes processing of fabrics on job work basis. The company was initially engaged in textile trading till 1998. The company purchased a processing house in 2000 in Gudda Tehsil in Bhilwara. Currently, SSPL's processing plant is located in Bhilwara, Rajasthan, and has an installed processing capacity for about 490 lac meters fabric per annum (6 stenters; textile fabric finishing machine used for drying, shrinking, chemical finishing and adjusting fabric width). In September 2016, due to financial and operational issues, the Saileela Group had taken over Suzuki Synthetics Private Limited and the name of the company has changed to Saileela Processors Private Limited (SPPL) wef January 2017.

As per the audited financials for FY16, the company recorded net profit of Rs 0.10 crore on operating income of Rs 33.45 crore as compared to net loss of Rs 1 crore on operating income of Rs 38.05 crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating FY2017	Month- year & Rating in FY2016	Month-year & Rating in FY2015	Month-year & Rating in FY2014
				March 2017	January 2016	June 2014	-
1	Cash Credit	Long-term	15.00	[ICRA]BB-(Stable)	-	-	-
2	Term loans	Long-term	11.00	[ICRA]BB-(Stable)	[ICRA]BB-(Stable);rating suspended	[ICRA]BB-(Stable)	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	15.00	[ICRA]BB- (Stable)
Term Loans	-	-	FY2021	11.00	[ICRA]BB- (Stable)

Source: SPPL

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