

August 23, 2017

Sudarshan Textiles Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term fund based - Term Loan	04.00	[ICRA]BB(Stable); re-affirmed
Long-term fund based - Cash Credit	02.50	[ICRA]BB(Stable); re-affirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]BB (pronounced as ICRA double B) assigned to the Rs. 06.50 crore¹ fund-based facilities of Sudarshan Textile Private Limited ('STPL' or 'the company')². The outlook on the long-term rating is 'Stable'.

Rationale

The re-affirmation of rating continues to factor in the significant experience of the promoters in the textiles industry; STPL's diversified customer base and location advantages accruing due to its presence in Surat, which provides easy accessibility to key raw materials and customers. The rating further derives comfort from the operational support STPL garners from other group companies engaged in the similar line of business.

The rating, however, is constrained by STPL's moderate scale of operations and highly working capital intensive nature of operations as reflected from NWC/OI (net working capital/operating income) of 31% in FY2017 owing to high receivables. The rating is also constrained by vulnerability of the margins the competitive pressures prevailing in the textile industry.

Key rating drivers

Credit strengths

- **Long experience of the management in the textile industry** – Sudarshan Textile Private Limited is a part of the Madhusudan Group which is into the business of textiles since 1982. Mr. Krishnagopal Mundra, Chairman of the group, has over four decades of experience in the textile industry.
- **Diversified customer base** - The company services nearly 500 customers, predominantly wholesale agents, who purchase the processed fabric from the firm, cut them into requisite lengths and sell them to manufacturers. The finished product of the firm is used in the manufacturing of sarees. The customer base of the company is highly diversified with the top ten customers accounting for approximately 18% and 19% of the company's total revenues in FY 2016 and FY 2017 respectively.
- **Location advantages due to proximity to suppliers and customers** - The firm is located in Surat, which is a major hub for fabrics. The textile companies in Surat are mainly engaged in yarn production, dyeing & printing, weaving and processing. This provides location advantage in terms of proximity to customer and supplier base.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

- **Operational support from other group companies engaged in the similar industry** – The presence of other group entities in the similar line of business provides operational support. The group has presence across yarn manufacturing, processing of grey fabric and fabric manufacturing.

Credit weaknesses

- **Modest scale of operations** - The operations of the firm have remained modest with an operating income of Rs. 34.33 crore in FY2017. The operating income of the firm has recorded a growth of 2% in FY2017 over FY2016.
- **Highly working capital intensive nature of operations** - The Company provides a credit period of 90 to 120 days to its customers and avails a credit period of 30 to 60 days from its suppliers. Payments to the Gujarat Mineral Development Corporation (GMDC) are made in advance, while the local agents for providing imported coal are paid within 60 days. Given the continuous stream of contracts handled by the company, the firm usually maintains an inventory of 30 days for colours, chemicals and coal is stocked for 30 days. The working capital intensity of the firm as reflected by NWC/OI has remained high at 31% in FY2017
- **Highly fragmented business characterised by intense competition from a large number of players** - The fabric processing industry is dominated by a large number of independent, small-scale enterprises. High degree of fragmentation due to large unorganized player has led to high competition in the processing segment, thereby limiting the pricing power of the companies. The product differentiation in this industry is, to a certain extent, based on the range and exclusivity of designs offered to the customers which attracts comparatively higher job work charges.

Analytical approach:

For arriving at the ratings, ICRA has taken a consolidated view of the business and financial risk profiles of STPL and its group companies – Laxminarayan Industries, Sudamo Impex Pvt. Ltd. and Shri Madhusudan Rayons Private Limited as their operational profile is similar and they share a common management. The rating methodologies applied are as indicated below.

Links to applicable criteria:

[Corporate credit rating methodology](#)

About the company

Incorporated in 1994, Sudarshan Textiles Private Limited (STPL) is engaged in the processing and dyeing of grey fabric on job work basis. The company has its registered office and manufacturing facility at Surat, Gujarat. The company is a part of the Madhusudan Group, which is into the business of textiles since 1982. Laxminarayan Industries (rated at [ICRA]BB), Sudamo Impex Pvt Ltd (rated at [ICRA]BB), Shri Madhusudan Rayons Private Limited (rated at [ICRA]BB+/[ICRA]A4+) and Madhusudan Dyeing & Printing Mills Pvt Ltd are the other entities in the group.

STPL reported a profit after tax of Rs. 1.01 crore on an operating income of Rs. 33.67 crore for the period ended March 31, 2016 and a profit before tax of Rs. 2.22 crore on an operating income of Rs. 34.33 crore for the period ended March 31, 2017 (provisional).

Table 1: Key Financial Indicators

	Standalone		Consolidated	
	FY2015	FY2016	FY2015	FY2016
	Audited	Audited	Audited	Audited
Operating income (Rs. crore)	33.67	34.33	220.45	224.84
PAT (Rs. crore)	1.01	2.22	5.57	7.32
OPBDIT/ OI (%)	10.25%	12.48%	8.08%	8.95%
RoCE (%)	14.08%	16.97%	15.56%	15.85%
Total Debt/ TNW (times)	1.83	1.23	1.96	2.08
Total Debt/ OPBDIT (times)	3.77	2.59	3.61	4.06
Interest coverage (times)	2.74	3.46	2.61	2.54
NWC/ OI (%)	35%	31%	29.66%	29.84%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax;

NWC: Net Working Capital; RoCE: Return on Capital employed; TNW: Tangible Net-Worth

Source: Financial statements of STPL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table 2

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	FY2018	FY2017	FY2016	FY2015
				Aug-17	-	Feb-16	-
1	Term Loan	Long-term fund based	04.00	[ICRA]BB (Stable)	-	[ICRA]BB (Stable)	-
2	Cash Credit	Long-term fund based	02.50	[ICRA]BB (Stable)	-	[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
Instrument Details

Name of the instrument	Date of Issuance/ Sanction	Coupon rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loan	FY2016	10.60%	FY2022	04.00	[ICRA]BB (Stable)
Cash Credit	-	-	-	02.50	[ICRA]BB (Stable)

Source: STPL

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