

## Surbhi Industries Limited

August 02, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loans	13.88	8.09	[ICRA]BB (Stable); Reaffirmed
Fund-based Cash Credit	4.50	4.50	[ICRA]BB (Stable); Reaffirmed
Non-fund Based-Letter of Credit	1.50	1.50	[ICRA]A4; Reaffirmed
Unallocated limits	5.12	10.91	[ICRA]BB (Stable)/[ICRA]A4; Reaffirmed
<b>Total</b>	<b>25.00</b>	<b>25.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB (pronounced ICRA double B) for the Rs. 8.09-crore term loans and the Rs. 4.50-crore cash credit facility of Surbhi Industries Limited (SIL or the company). ICRA has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) for the Rs. 1.50-crore letter of credit of SIL. ICRA has also reaffirmed [ICRA]BB and [ICRA]A4 ratings for the Rs. 10.91-crore unallocated limits of SIL. The outlook on the long-term rating is 'Stable'.

### Rationale

The rating reaffirmation continues to factor in SIL's modest scale of operations with continuous decline in the operating income in the last few fiscals. The ratings are also constrained by the average financial risk profile as marked by YoY declining net margin with net loss reported in FY2018, moderate capital structure, average debt coverage indicators and high working capital intensity because of high receivable days. The ratings also factor in the highly fragmented fabric manufacturing industry; the intense competition from numerous unorganised players; the vulnerability of its profitability to adverse fluctuations in raw material prices and the cyclical nature inherent in the textile industry. The ratings, however, draw comfort from the extensive experience of the promoters in the textile industry; its easy access to raw materials; and the backward integration into yarn processing.

### Outlook: Stable

ICRA believes SIL will continue to benefit from the significant experience of its promoters. The outlook may be revised to Positive if the company reports growth in revenue and profitability and ensures better working capital management along while regular debt repayments. The outlook may be revised to Negative if the company reports substantial decline in revenue and profitability, or cash accrual is lower-than-expected or if any major debt-funded capital expenditure, or stretch in the working capital cycle weakens liquidity

## Key rating drivers

### Credit strengths

**Two-decade long experience of promoters in textile industry** – Established in 1991, SIL manufactures twisted yarns and knitted fabric. Its key promoters, Mr. Ravji Patel and Mr. Bipin Patel, have more than two decades of experience in the textile industry. The extensive experience of the promoters helps the company to garner continuous orders from end customers.

**Favourable location for raw material** –SIL’s manufacturing facility is in the textile hub of Surat (Gujarat), which provides easy access to quality raw materials. Further, the company has backward integrated operations for yarn processing, which aids to reduce the raw material cost.

### Credit challenges

**Moderate scale of operations in intensely competitive industry**– The company’s scale of operation continues to remain moderate, as reflected in its operating income (OI)—Rs. 24.36 crore in FY2017 and Rs. 20.92 crore in FY2018. Moreover, the high competition in the textile garmenting and processing industry limits the pricing flexibility.

**Average financial risk profile** – SIL’s operating income growth has remained sluggish in the last two fiscals. OI declined 22.23% to Rs. 24.36 crore in FY2017 from Rs. 32.25 crore in FY2016 and further by 33.22% to Rs. 20.92 crore in FY2018 because of lower realisation of knitted fabric products. The operating margin dipped 1030 bps to 19.96% in FY2018, versus an increase by 537 bps to 30.26% in FY2017, because of fluctuation in raw material consumption and other overhead costs as a percentage of the operating income. Further, the company reported a net loss of Rs. 0.90 crore in FY2018 because of high depreciation and decline in the operating profit. The company’s capital structure remained moderate, as evident from the gearing of 1.07 times as on March 31, 2018. The coverage indicators were average, following a decline in profitability— the interest coverage was 2.85 times and Total Debt/OPBDITA was 3.10 times in FY2017. Further, the debt service coverage ratio was below average (0.78 times) in FY2018 as the cash accrual was inadequate to meet its impending debt repayment obligations.

**High working capital intensity** – The working capital intensity has remained high in the past and increased further in FY2018, as evident from NWC/OI of ~39% (~31% in FY2017), because of increase in debtor days (~83 days). The liquidity position remained moderate; the utilisation of working capital limits from March 2017 to May 2018 period stood at ~70%.

**Vulnerability of margins to raw material price fluctuation**–The realisation depends on the price of raw material (i.e polyester filament yarn and nylon filament yarn). Thus, the company’s profitability is vulnerable to the extent of any mismatch in the price of raw material and the end-product.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

### About the company:

Surbhi Industries Limited (SIL or the company) was incorporated in 1991 by Mr. Ravji Patel and his family members. The company manufactures synthetic-based twisted yarn and knitted fabric for garments, sarees, home furnishings and

industrial textiles. The manufacturing facility of SIL is located at Surat in Gujarat. The company sells its products under the brand name 'Surbhi'.

SIL is a part of the Surbhi Group, which consists of other entities namely Surbhi Textile Mills Private Limited (rated at [ICRA]BB (Stable)/[ICRA]A4+). Surbhi Textile Mills Private Limited manufactures twisted yarn, grey fabric, knitted fabric and embroidered fabric.

In FY2018, the company reported a net loss of Rs. 0.90 crore on an operating income of Rs. 20.92 crore, as compared to a net profit of Rs. 0.72 crore on an operating income of Rs. 24.36 crore in the previous fiscal.

### Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	24.36	20.92
PAT (Rs. crore)	0.72	-0.90
OPBDIT/ OI (%)	30.26%	19.96%
RoCE (%)	9.55%	-0.63%
Total Debt/ TNW (times)	1.27	1.07
Total Debt/ OPBDIT (times)	2.25	3.10
Interest Coverage (times)	3.06	2.85

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2018 (Rs Crore)	Date & Rating August 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Term Loans	Long Term	8.09	9.38	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	April 2015 [ICRA]BB (Stable) Suspended
2 Cash Credit	Long Term	4.50	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	[ICRA]BB (Stable) Suspended
3 Letter of Credit	Short Term	1.50	-	[ICRA]A4	[ICRA]A4	-	[ICRA]A4+ Suspended
4 Unallocated Limits	Long Term/ Short Term	10.91	-	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Stable)/ [ICRA]A4	-	[ICRA]BB (Stable)/ [ICRA]A4+ Suspended

### 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](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2015	NA	FY2023	8.09	[ICRA]BB (Stable)
NA	Cash Credit	NA	NA	NA	4.50	[ICRA]BB (Stable)
NA	Letter of Credit	NA	NA	NA	1.50	[ICRA]A4
NA	Unallocated Limits	NA	NA	NA	10.91	[ICRA]BB (Stable)/[ICRA]A4

Source: Surbhi Industries Limited

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