

## Surbhi Textile Mills Private Limited

August 02, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund-based Term Loan	31.90	24.43	[ICRA]BB (Stable); Reaffirmed
Fund-based Cash Credit	8.00	8.00	[ICRA]BB (Stable); Reaffirmed
Non-fund Based Letter of Credit	1.50	1.50	[ICRA]A4+; Upgraded from [ICRA]A4
Unallocated limits	15.60	23.07	[ICRA]BB (Stable); Reaffirmed /[ICRA]A4+; Upgraded from [ICRA]A4
<b>Total</b>	<b>57.00</b>	<b>57.00</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. 24.43-crore term loans and the Rs. 8.00-crore cash credit facility of Surbhi Textile Mills Private Limited (STMPL or the company). ICRA has upgraded the short-term rating to [ICRA]A4+ (pronounced ICRA A four plus) from [ICRA]A4 (pronounced ICRA A four) for the Rs. 1.50-crore letter of credit of STMPL. ICRA has also reaffirmed the long-term rating of [ICRA]BB and upgraded the short-term rating to [ICRA]A4+ from [ICRA]A4 for the Rs. 23.07-crore unallocated limits of STMPL. The outlook on the long-term rating is Stable.

### Rationale

The short-term rating upgrade considers the increase in the company's operating profit margins in FY2017 and FY2018 and the improvement in capital structure and debt coverage indicators. The ratings also draw comfort from the extensive experience of the promoters in the textile industry, as evident from its ability to generate repeat business from its customers. Moreover, the company also benefits from the easy availability of raw materials as well as from the backward integrated operations for yarn processing.

The ratings, however, remain constrained by STMPL's average financial risk profile, leveraged capital structure and average debt coverage indicators. The company's operating income has been steadily eroding in the past two fiscals because of decline in direct manufacturing sales. The ratings are also restricted by high working capital intensity caused by high receivables days, which has also resulted in high utilisation of the working capital limits. The ratings also factor in the highly fragmented fabric manufacturing industry, with intense competition from numerous unorganised players, and the vulnerability of its profitability to adverse fluctuations in raw material prices. Moreover, high customer concentration risk and demand cyclicity inherent in the textile industry are also credit negative.

### Outlook: Stable

ICRA believes STMPL will continue to benefit from the extensive experience of its promoters in the textiles industry. 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 if any major debt-funded capital expenditure, or a stretch in the working capital cycle weakens the overall liquidity position of the company.

## Key rating drivers

### Credit strengths

**Extensive experience of promoters in textile industry** – Established in 1988, STMPL manufactures twisted yarns, grey fabric, knitted fabric and embroidered fabric. Its key promoter, Mr. Ratilal Patel and Mr. Jeram 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; established relationship with customers** – STMPL'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 process for yarn processing which aids to reduce raw material cost. The company's clientele includes reputed customers from the domestic market. Moreover, the established relationship with its customers has resulted in repeat orders—the top-six customers have remained the same for the past two years.

**Improvement in profitability** – With the increase in job work sales (wherein the profit margins are higher) in the total sales mix, the company's operating margins improved by 194 bps to 25.25% in FY2017 and 579 bps to 31.04% in FY2018 respectively. Further, the revenue from the wind mills (Rs. 6-6.20 crore in FY2017 and FY2018) has also supported the profit margins.

### Credit challenges

**Average financial risk profile** – STMPL's operating income declined by 13.81% to Rs. 62.18 crore in FY2018 from Rs. 72.15 crore in FY2016 because of an increase job-work activity, while the company's own manufacturing unit was downsized. Further, the company's capital structure remained leveraged, evident from the high gearing of 1.66 times as on March 31, 2018, although it improved from 2.02 times as on March 31, 2017. The coverage indicators remained at average levels, with interest coverage at 3.26 times and Total Debt/OPBDITA of 2.73 times in FY2018.

**High working capital intensity** – The working capital intensity has remained high in the past and it increased further in FY2018, as reflected by NWC/OI of ~27% (~26% in FY2017), because of increase in debtor days (~87 days). The overall liquidity position remained moderate, as evident from the high utilisation (89%) of working capital limits from March 2017 to May 2018.

**Intense competition** – Textile garmenting and processing industry is a fragmented industry and comprises numerous small players. This leads to intense competition, thereby limiting its pricing flexibility.

**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 Textile Mills Private Limited (STMPL or the company) was established as a private limited company by Mr. Ravji Patel and his family members in 1988. The company manufactures synthetic-based twisted yarn, grey fabrics, embroidered and knitted fabrics for garments, sarees, home furnishings and industrial textiles. The manufacturing facility of STMPL is located at Surat, Gujarat. The company sells its products under the brand name, 'Surbhi'.

STMPL is a part of Surbhi Group, which consists of other entities namely Surbhi Industries Limited (rated at [ICRA]BB (Stable)/[ICRA]A4). Surbhi Industries Limited manufactures twisted yarn and knitted fabrics.

In FY2018, on a provisional basis, the company reported a profit before tax of Rs. 5.39 crore on an operating income of Rs. 62.18 crore, as compared to a net profit of Rs. 0.83 crore on an operating income of Rs. 65.76 crore in the previous fiscal.

## Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	72.15	65.76
PAT (Rs. crore)	0.87	0.83
OPBDIT/ OI (%)	23.31%	25.25%
RoCE (%)	9.64%	9.69%
Total Debt/ TNW (times)	2.30	2.02
Total Debt/ OPBDIT (times)	3.58	3.30
Interest Coverage (times)	2.16	2.10

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

**Any other information: None**

### Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	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 Loan	Long Term	24.43	26.50	[ICRA]BB (Stable)	April 2017 [ICRA]BB (Stable)	-	April 2015 [ICRA]BB+ (Stable)
2 Cash Credit	Long Term	8.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	Suspended [ICRA]BB+ (Stable)
3 Letter of Credit	Short Term	1.50	-	[ICRA]A4+	[ICRA]A4	-	Suspended [ICRA]A4+
4 Unallocated Limits	Long Term/ Short Term	23.07	-	[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	FY2014	NA	FY2026	24.43	[ICRA]BB (Stable)
NA	Cash Credit	NA	NA	NA	8.00	[ICRA]BB (Stable)
NA	Letter of Credit	NA	NA	NA	1.50	[ICRA]A4+
NA	Unallocated Limits	NA	NA	NA	23.07	[ICRA]BB (Stable)/[ICRA]A4+

Source: Surbhi Textile Mills Private Limited

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