ICRA

April 06, 2017

# Surbhi Industries Limited

| Instrument* | Rated Amount (in crore) | Rating Action |
| --- | --- | --- |
| Fund-based Term Loans | 13.88 | [ICRA]BB (Stable) assigned |
| Fund-based Cash Credit | 4.50 | [ICRA]BB (Stable) assigned |
| Non-fund based Letter of Credit | 1.50 | [ICRA]A4 assigned |
| Unallocated Limits | 5.12 | [ICRA]BB (Stable)/[ICRA]A4 assigned |
| **Total** | **25.00** | |

*Instrument Details are provided in Annexure-1

**Rating action**

ICRA has assigned the long-term rating of [ICRA]BB (pronounced ICRA double B) to the Rs. 13.88-crore term loans and the Rs. 4.50-crore cash credit facility of Surbhi Industries Limited (SIL). ICRA has also assigned the short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 1.50-crore letter of credit of SIL. It has also assigned [ICRA]BB and [ICRA]A4 ratings to the Rs. 5.12-crore unallocated limits of SIL. The outlook on the long-term rating is ‘Stable’.

**Rationale**

The assigned ratings primarily take into account the significant experience of the promoters of SIL in the textile industry. The ratings also factor in the locational advantages from its presence in Surat, which provide easy accessibility to key raw materials and a large customer base.

The assigned rating are constrained by SIL’s moderate scale of operations, highly geared capital structure as indicated by gearing level of 1.80 times as on March 31, 2016, due to an increase in term loans availed for debt-funded capex over the past two fiscals. Furthermore, the ratings are constrained by SIL’s high working capital intensity (NWC/OI) of 22.2% as on March 31, 2016, due to a high inventory level. ICRA also takes into account the vulnerability of profitability due to any adverse fluctuations in raw material (PFY and NFY) prices, which are primarily procured from the domestic market, although the same is mitigated to the extent of in-house yarn manufacturing. The ratings also take into account the intense competitive nature of the textile industry, accompanied by the presence of organised and unorganised players, limited bargaining power with its suppliers and the demand cyclicality associated with the textile industry.

ICRA expects SIL’s operating income to remain stagnant in the current fiscal on the back of a weak demand outlook and stiff competition from imports. ICRA also takes into consideration the vulnerability of operating profitability amid volatile movement in raw material costs. The net profits of the company are expected to remain pressured by the high depreciation cost on a relatively high investment in gross block, while the principal and interest payouts are projected to remain high due to recent debt-funded capex along with high utilisation of working capital borrowings. Thus, improvement in profitability and maintenance of healthy cash accruals, while managing its scale of operation will be critical for timely debt servicing.

**Key Rating Drivers**

**Credit Strengths**

- Extensive experience of the management in the textile industry
- Locational advantage of being present in the textile manufacturing and processing hub of Surat, which provides easy accessibility to both suppliers and customers

**Credit Weaknesses**

- Modest scale of operations
- Financial profile characterised by leveraged capital structure, modest coverage indicators and high working capital intensity owing to high inventory levels, resulting in stretched liquidity
- Vulnerability of profitability to fluctuations in the prices of polyester filament yarn (PFY) and nylon filament yarn (NFY)
- Limited bargaining power with supplier base of larger and established players
- Intense competition in the textile manufacturing and processing industry due to its fragmented nature, with the presence of organised and unorganised players; however, sales under the 'Surbhi' brand provides it an edge over unorganised players

**Description of key rating drivers:**

SIL manufactures twisted yarns and knitted fabrics. Major revenue is earned from knitted fabrics i.e. 92.4% of the total sales of the company and the remaining came in from twisted yarns in FY2016.

The operating income of the company stood at Rs. 32.25 crore in FY2016 as against Rs. 42.80 crore in FY2015. The revenue growth in the last three years has been fluctuating, while the profitability has increased YoY from FY2014-16. Further, with the continuous debt-fund capex for the past two years has led to stretched capital structure as is evident from a high gearing of 1.80 times as on March 31, 2016. Further, the liquidity position of the company is stretched owing to significant rise in the inventory level, resulting in high working capital utilisation.

**Analytical approach:** For arriving at the ratings, ICRA has taken into account the debt-servicing track record of SIL, its business risk profile, financial risk drivers and management profile.

**Links to applicable criteria:**

**Corporate Credit Rating Methodology**
http://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf

**About the company:**

Established in 1991, Surbhi Industries Limited (SIL/the company) manufactures twisted yarn for cotton weaving and knitted fabric for garments, sarees and home furnishings. The manufacturing facility of SIL is located at Surat, Gujarat, a production capacity of 7.56 lakh metric tonnes per annum (MTPA) of twisted yarn and 9.41 lakh MTPA of knitted fabric. The company sells its products under the brand name 'Surbhi'. Mr. Ravji Patel and Mr. Bipin Patel are involved in the daily operations of the company.

On March 31, 2016, the company reported an operating income of Rs. 32.25 crore with a net profit of Rs. 1.57 crore against an operating income of Rs. 42.80 crore with a net profit of Rs. 2.83 crore as on March 31, 2015.

**Status of non-cooperation with previous CRA:** CARE has suspended the CARE BB+ and CARE A4+ ratings assigned to the bank facilities of Surbhi Industries Limited in October 2016 as the company has not furnished the information required by CARE for monitoring of the ratings.

**Any other information:** Not applicable

**Rating history for last three years:**

**Table: Rating History**

| S.No | Name of Instrument | Current Rating (FY2017) | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount outstanding (Rs. Crores) | Month-year & Rating | Month- year & Rating in FY2016 | Month- year & Rating in FY2015 | Month- year & Rating in FY2013 |
| | | | | April 2017 | April 2015 | April 2014 | January 2013 |
| 1 | Term Loans | Long Term | 13.88 | [ICRA]BB (Stable) | [ICRA]BB (Stable) Suspended | [ICRA]BB (Stable) | [ICRA]BB (Stable) |
| 2 | Cash Credit | Long Term | 4.50 | [ICRA]BB (Stable) | [ICRA]BB (Stable) Suspended | [ICRA] BB (Stable) | [ICRA]BB (Stable) |
| 3 | Letter of Credit | Short Term | 1.50 | [ICRA]A4 | [ICRA]A4+ Suspended | [ICRA] A4+ | [ICRA]A4+ |
| 4 | Unallocated | Long Term/Short Term | 5.12 | [ICRA]BB (Stable)/ [ICRA]A4 | [ICRA]BB (Stable)/ [ICRA]A4+ Suspended | [ICRA]BB (Stable)/ [ICRA]A4+ | N.A. |

**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 |
|---|---|---|---|---|---|
| Term Loan | December 2011 | - | November 2022 | 13.88 | [ICRA]BB (Stable) |
| Cash Credit | - | - | - | 4.50 | [ICRA]BB (Stable) |
| Letter of Credit | - | - | - | 1.50 | [ICRA]A4 |
| Unallocated | - | - | - | 5.12 | [ICRA]BB (Stable)/[ICRA]A4 |

Source: Surbhi Industries Limited

**Name and Contact Details of the Rating Analyst(s):**

**Subrata Ray**
**+91 22 2433 1086**
**subrata@icraindia.com**

**Suprio Banerjee**
**+91 22 6114 3443**
**supriob@icraindia.com**

**Pooja Shah**
**+91 79 4027 1540**
**pooja.shah@icraindia.com**

**Jaimin Patel**
**+91 79 4027 1550**
**jaimin.patel@icraindia.com**

**Name and Contact Details of Relationship Contacts:**

**Jayanta Chatterjee**
+91 80 4332 6401
jayantac@icraindia.com

About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

**Registered Office**
**ICRA Limited**
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office**
**Mr. Vivek Mathur**
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

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|---|---|
| **Mumbai**<br>**Mr. L. Shivakumar**<br>Mobile: +**91 9821086490**<br>Email: shivakumar@icraindia.com<br><br>3rd Floor, Electric Mansion<br>Appasaheb Marathe Marg, Prabhadevi<br>Mumbai—400025,<br>Board : +91-22-61796300; Fax: +91-22-24331390 | **Kolkata**<br>**Mr. Jayanta Roy**<br>Mobile: **+91 9903394664**<br>Email: jayanta@icraindia.com<br><br>A-10 & 11, 3rd Floor, FMC Fortuna<br>234/3A, A.J.C. Bose Road<br>Kolkata—700020<br>Tel +91-33-22876617/8839 22800008/22831411,<br>Fax +91-33-22870728 |
| **Chennai**<br>**Mr. Jayanta Chatterjee**<br>Mobile: +**91 9845022459**<br>Email: jayantac@icraindia.com<br><br>5th Floor, Karumuttu Centre<br>634 Anna Salai, Nandanam<br>Chennai—600035<br>Tel: +91-44-45964300; Fax: +91-44 24343663 | **Bangalore**<br>**Mr. Jayanta Chatterjee**<br>Mobile: +**91 9845022459**<br>Email: jayantac@icraindia.com<br><br>'The Millenia'<br>Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,<br>Murphy Road, Bangalore 560 008<br>Tel: +91-80-43326400; Fax: +91-80-43326409 |
| **Ahmedabad**<br>**Mr. L. Shivakumar**<br>Mobile: +**91 9821086490**<br>Email: shivakumar@icraindia.com<br><br>907 & 908 Sakar -II, Ellisbridge,<br>Ahmedabad- 380006<br>Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231 | **Pune**<br>**Mr. L. Shivakumar**<br>Mobile: +**91 9821086490**<br>Email: shivakumar@icraindia.com<br><br>5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020<br>Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231 |
| **Hyderabad**<br>**Mr. Jayanta Chatterjee**<br>Mobile: +**91 9845022459**<br>Email: jayantac@icraindia.com<br><br>4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083<br>Tel:- +91-40-40676500 | |