Surya Processors Private Limited

December 10, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities – Term Loan	71.47	71.47	Downgraded from [ICRA]BBB- to [ICRA]BB+; outlook retained at Negative
Long-term fund-based bank facilities – Cash Credit	47.00	47.00	Downgraded from [ICRA]BBB- to [ICRA]BB+; outlook retained at Negative
Short-term non-fund-based bank facilities	12.75	12.75	Downgraded from [ICRA]A3 to [ICRA]A4+
Unallocated	18.78	18.78	Downgraded from [ICRA]BBB- to [ICRA]BB+; outlook retained at Negative
Total	**150.00**	**150.00**	

*Instrument details are provided in Annexure -1

Rationale

The ratings downgrade factors in the weakening of SPPL's liquidity profile and debt-coverage metrics. A slower-than-anticipated ramp-up of company's enhanced capacities and continued profitability pressures amid subdued demand, together with increasing repayment burden and funds blocked in working capital have resulted in pressures on company's debt-coverage metrics and liquidity position, resulting in a continued reliance on ad-hoc working capital limits during FY2018 and 7MFY2019. Even as transitory pressures resulting from movement to Goods and Services Tax (GST) regime and sealing drive in the company's key market – Delhi have subsided, continued adverse demand-supply scenario in the denim segment and regulatory developments involving restrictions on production amid environmental concerns, have hampered the operations during the current financial year.

The sizeable debt-funded capital expenditure undertaken by the company over the past few years has resulted in moderation in company's capitalisation and debt coverage indicators. Although ICRA continues to take comfort from SPPL's low average cost of debt supported by access to fiscal incentives (in the form of interest subsidy under Central/ State government schemes), a less-than-commensurate increase in profits vis-à-vis ballooning repayment obligations has resulted in weakening in company's coverage metrics (as reflected in a debt-service coverage ratio of 1.2 times and Total Debt/ operating profit to 8.84 times in FY2018 from 1.3 times and 5.7 times in FY2017 respectively). The ratings also remain constrained by the fragmented nature of fabric weaving as well as processing industries that drive high competition and keeps profitability under pressure, as reflected by modest return on capital of ~9%.

The ratings, however, continue to draw comfort from the established track record of SPPL with three decades of operations in fabric processing and weaving industry and increased backward integration over the past few years which has resulted in increased value-addition and has supported profitability in the recent years. Further, the ratings continue to factor in promoters' continued support to the venture in the form of interest-bearing unsecured loans, which form a substantial part of the long-term funding in the company. While these are proposed to be retained during the tenure of the bank loans, the extent of withdrawal of these loans, if any, will continue to be a determinant of the liquidity and will remain a rating sensitivity.

Outlook: Negative

The negative outlook reflects ICRA's expectation of a sustained pressure on SPPL's debt-servicing indicators and liquidity, amid sub-optimal revenues and operating profits and increasing repayment obligations. Having said that, ICRA expects SPPL to reduce its dependence on adhoc limits and avail enhancement in limits from the Banks to meet its incremental working capital requirements. Any further pressures on profitability or liquidity owing to a further elongation in operating cycle or a delay in getting access to enhanced limits could exert a downward pressure on the ratings. The outlook may be revised to Stable if SPPL is able to revive its revenue growth and operating profitability, supported by improved utilization of its enhanced capacities, while optimally managing its working capital cycle, thereby resulting in improved coverage and liquidity profile.

Key rating drivers

Credit strengths

Established track record with three decades of operations in fabric processing and weaving sectors – SPPL has been engaged in textile processing business for over 30 years. The promoter group, comprising the Kapoor family, has a long-standing experience in the sector.

Partially backward-integrated operations with weaving facilities, which support operating profitability– SPPL has enhanced its fabric manufacturing capacity in recent years, installing 100 looms (taking the total to 136) that now cater to a large portion of its inhouse fabric requirements. This in turn enabled the company to register an improvement in its operating margins from ~6% in FY2015 to over ~9% in FY2017. However, subdued demand trends coinciding with environmental and regulatory challenges and rising input costs affected operating margins subsequently, wherein it again declined to ~6% in FY2018.

Long tenure of loans and access to fiscal incentives– The loans availed by SPPL for its previous phase of capacity expansion are eligible for interest subsidy under the Technology Upgradation Fund Scheme (TUFS), while also having long door-to-door tenure of 96 months. In addition, the new loans are eligible for interest subsidy under the 'Handloom, Powerloom, Silk, Textile and Garmenting Policy 2017' of the Uttar Pradesh (UP) government. These inturn provide some support to the company's debt coverage metrics.

Credit challenges

Modest financial-risk profile, characterised by a leveraged capital structure and weak debt-coverage metrics - SPPL has undertaken a large-scale debt-funded capex for installation of two new denim lines and 100 looms in the recent years. The said capex was funded in a debt: equity mix of 3:1. As a result of the sizable debt-funded capex, company's leverage as reflected in total debt/ tangible net worth ratio increased to 5 times as on March 31, 2018 from 4 times as on March 31, 2016. This together with sub-optimal utilisation of the enhanced capacities and continued profitability pressures amid subdued demand, together with increasing repayment burden have resulted in pressures on the company's debt-coverage metrics. This is reflected in a weakening of the company's debt-service coverage ratio (DSCR) and Total Debt/ operating profit to 1.2 times and 8.84 times in FY2018 from 1.3 times and 5.7 times in FY2017 and 1.8 times and 4 times in FY2016 respectively. Even as transitory pressures resulting from movement to GST regime and sealing drive in the company's key market – Delhi have subsided, continued adverse demand-supply scenario in the denim segment and regulatory developments involving restrictions on production amid environmental concerns, have hampered the operations during the current financial year, keeping the coverage metrics modest.

Stretched liquidity profile – Increased scale of operations together with increased working capital requirements post transition to GST regime affected company's liquidity profile, making the company reliant on ad-hoc limits during FY2018 as well as 7MFY2019. Going forward, adequate and timely enhancement in working capital limits from Banks remains crucial.

Sub-optimal utilisation of enhanced capacities leading to modest return indicators – Sub-optimal utilisation of the enhanced capacity and continued pressures on operating profitability, have kept the company's return indicators modest (as reflected in a ROCE of ~10.7% and ~9% in FY2017 and FY2018 respectively).

Liquidity Position:

SPPL's liquidity profile is stretched as reflected in the peak utilisation of working capital limits averaging at more than ~90% of available sanctioned limits in 7MFY2019. Besides, delay in enhancement of bank limits despite an increase in scale of operations, has resulted in continued dependence on adhoc limits. Going forward, timely and adequate enhancement in limits, commensurate with the scale of operations remains critical for SPPL's liquidity profile. However, any further pressures on operating performance, elongation of operating cycle, delay in getting GST refunds could exert further pressures on the liquidity. On the contrary, infusion of long-term funds resulting in a reduced dependence on outside borrowings as well as rendering a cushion to support short-term mismatches would support the liquidity profile.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian Indian Textiles Industry- Fabric
Parent/Group Support	Not applicable
Consolidation / Standalone	Rating is based on standalone financial statements of the issuer.

About the company:

Surya Processors Private Limited (SPPL) is a Ghaziabad (Uttar Pradesh)-based textile-processing company having an annual processing capacity of 300 lakh metre fabric. SPPL's operations are partially backward integrated, with 136 looms for weaving fabrics. SPPL has been operating in the fabric processing and weaving segments for almost 30 years. The company is closely held by the promoters and is managed by Mr. S K Kapoor, Mr. Gaurav Kapoor, Mr. Ashu Kapoor and Mr. Anuj Kapoor at present.

Key Financial Indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	203.0	288.2
PAT (Rs. crore)	3.0	3.0
OPBDIT/ OI (%)	9.2%	6.0%
RoCE (%)	10.7%	8.8%
Total Debt/ TNW (times)	3.48	4.57
Total Debt/ OPBDIT (times)	5.69	8.84
Interest coverage (times)	2.12	1.76
NWC/ OI (%)	28%	27%

Note: OI: Operating Income; OPBDIT: Operating Profit before Depreciation, Interest and Taxes; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital (Current Assets less Current Liabilities)

Status of non-cooperation with previous CRA:

CRISIL Ltd. suspended the CRISIL BB+(Stable)/A4+ ratings on the Rs. 120-crore bank facilities of Surya Processors Private Limited in March 2016. The suspension of ratings was on account of CRISIL's inability to maintain a valid rating in the absence of adequate information.

India Ratings and Research had withdrawn the IND BB- long-term issuer rating and IND BB-/IND A4+ ratings assigned to the bank facilities of Surya Processors Pvt. Ltd. in February 2015. The ratings were suspended due to lack of adequate information in June 2014.

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
			Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
	Instrument	Type			Dec 2018	Apr 2018	May 2017	Apr 2016	Apr 2015
1	Fund-based bank facilities – Term Loan	Long Term	71.47	69.5^	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Fund-based bank facilities – Cash Credit	Long Term	47.00	-	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Non-fund-based facilities	Short term	12.75	-	[ICRA]A4+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
4	Unallocated	Long term	18.78	-	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)

^Outstanding as on March 31, 2018

Note: LT: Long Term; ST: Short Term

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan I	Mar-2013	10.20%	30-May-2023	12.61	[ICRA]BB+ (Negative)
NA	Term Loan II	Dec-2013	10.20%	30-Oct-2025	27.09	[ICRA]BB+ (Negative)
NA	Term Loan III	Sep-2017	9.70%	7-Sep-2023	17.15	[ICRA]BB+ (Negative)
NA	Term Loan IV	Dec-2016	9.70%	7-Jan-2023	8.17	[ICRA]BB+ (Negative)
NA	Term Loan V	Jan-2017	9.70%	7-Jan-2024	6.45	[ICRA]BB+ (Negative)
NA	Cash Credit	-	9.10-10.20%	-	47.00	[ICRA]BB+ (Negative)
NA	Letter of Credit	-	-	-	12.00	[ICRA]A4+
NA	Bank Guarantee	-	-	-	0.75	[ICRA]A4+

Source: Surya Processors Private Limited

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Nidhi Marwaha
+91 124 4545 337
nidhim@icraindia.com

Annu Mendiratta
+91 124 4545 887
annu.mendiratta@icraindia.com

RELATIONSHIP CONTACT

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

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999