



## Press Release

### Sara Textiles Limited

**October 10, 2024**

#### **Ratings**

Instrument Facility	Amount (Rs. Crore)	Current Ratings	Previous Rating	Rating Action	<a href="#">Complexity Indicator</a>
Long term Bank Facilities	151.05	IVR BBB/ Stable (IVR Triple B with Stable outlook)	IVR BBB/ Stable (IVR Triple B with Stable outlook)	Re-affirmed	Simple
Short Term bank Facilities	20.00	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)	Re-affirmed	Simple
<b>Total</b>	<b>171.05</b>	<b>(Rupees One Hundred Seventy One Crores and Five Lakhs Only)</b>			

**Details of Facilities/Instrument are in Annexure 1**

**Facility wise lender details are at Annexure 2**

**Detailed explanation of covenants is at Annexure 3**

#### **Detailed Rationale**

Infomerics Valuation and Rating Private Limited (IVR) has re-affirmed the long/Short Term rating to IVR BBB with a Stable outlook & IVR A3+ for the bank loan facilities of Sara Textiles Limited (STL).

The rating continues to draw comfort from its experienced promoters and long track record of operations, improvement in scale of operations, satisfactory capital structure and debt protection metrics. However, these rating strengths are partially offset by predominantly debt funded capital expenditure being undertaken by the company and moderation of capital structure on account of debt funded capex, elongated operating cycle, exposed to intense competition in the highly fragmented Indian textile industry, volatility in raw material prices. IVR also notes that the capex which the firm is undertaking is expected to be completed within budgeted timeline and no cost overruns.

The stable outlook indicates a low likelihood of rating change in the medium term. IVR believes that the company is expected to sustain its operating income and continue to capitalize on the vast experience of the directors and strong brand presence.



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IVR has principally relied on the standalone financial results of STL up to March 31, 2024 (Audited) (Review period April 01, 2023 to March 31, 2024) and three years projected financials till FY27, and publicly available information/ clarifications provided by the company's management.

### **Key Rating Sensitivities:**

#### **Upward Factors**

- Timely completion of project within the estimated cost.
- Significant and sustained growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in capital structure and debt coverage indicators.

#### **Downward Factors**

- Delay in completion of the project with cost overrun and Significant delay in commencement of operations.
- Dip in operating income and/or profitability thereby impacting on the debt coverage indicators and/or any deterioration in the overall financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to deterioration in the liquidity position.

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

**Established Parent company and Extensive Experience of Promoters:** Sara Textiles Ltd reaps the benefits from its status of one of the flagship companies of Sara Group. Sara Group is engaged in different sectors including terry towel manufacturing, trading of Minerals and Ores, Sale and Service of major Textile & Apparel Machinery, Mining and Port owning and management etc.



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STL's management rests in the hands of Mr. Devinder Pal Singh, who has been associated with the company for over 20 years and carry's experience into manufacturing of terry towels. He holds a post graduate degree in Economics from Punjab University along with a Diploma from the Indian Institute of Foreign Trade, New Delhi. He is assisted by a team of well-qualified and experienced professionals in handling the day to -day operations of the business.

### **Diverse clientele and long-standing relationships enhance revenue stability:**

The promoters have over twenty years of expertise in the home furnishings sector, specializing in terry towels while also trading in bathmats, bed sheets, and related products. With a solid customer base in India and abroad, the company serves 12 key clients in the US and Europe. Its international reach is expanding into the Middle East, Australia, and Asia. Strong ties with reputable clients in these regions ensure stable revenues. STL's focus on high-quality premium products has led to repeat orders, providing consistent revenue.

### **Moderate Scale of operations and profitability**

STL has reported a growth of 7.61% in its scale of operations marked by TOI Rs. 257.10 Cr in FY'24 (A) as against TOI of Rs. 238.91 Cr in FY23 (A) on account of increase in sale of fabric voile and garments as well as increase in average realization. The profitability marked by EBITDA & PAT margins remain moderate at 5.09% & 1.10% respectively for FY'24 as against 5.24% and 1.77% for FY'23. During Q1 FY'25 STL has registered revenue of Rs. 55.84 Cr with an EBITDA margin of around 7.59%.

### **Diversified product portfolio with focused concentration**

STL's product portfolio includes the manufacturing of Towels and trading of Cotton, Bed Sets, Fabrics & other. In FY'24 the company's focus shifted primarily to cotton, Bed Sets & Fabrics which contributed approximately 23% of total revenue, respectively, compared to 19% in FY'23. Conversely, the production of Terry towels saw a marginal decline, accounting for 77% of total revenue in FY'24, down from about 81% in FY'23, due to



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decreased demand for terry towels. STL has shifted its focus from terry towels to cotton, Bed Sets, Fabrics majorly due to shift in demand of consumer preference.

### **Satisfactory debt protection metrics and financial risk profile:**

The capital structure of STL stood comfortably marked by marginal decline in adjusted overall gearing to 0.92x as on March 31, 2024, as against 0.60x as on March 31, 2023 majorly led by unsecured loan from the parent company amounting to Rs.11.22 crore during FY'24. Further the debt coverage indicators marked by ISCR & DSCR remain comfortable at 2.05x and 1.31x respectively in FY'24 as against 2.30x and 1.24x respectively in FY'23.

### **Key Rating Weaknesses**

#### **Project Implementation risk**

To cater the demand and need of their customer, Company proposes to addition of 2,700 MT/Year in its capacity at their existing unit - Village Bhatian, Pargana Plassi, Tehsil Nalagarh, District Solan, Himachal Pradesh – 174101. The Company is already running a production plant of the 4,200 MTPA capacity project land and has enough land to set up an expansion unit, so there is no requirement to obtain extra land for the proposed project. The project is expected to be commissioned from Jan 2025 with total cost of Rs.95.85 Crore funded through debt (70.00%), internal accruals & Promoter contribution (30.00%). The Actual COD date was January 2024, however the same has been shifted to January 2025 due to delay in approvals from ministry, although single window in principle approval was received, but floods in HP in last year & its aftermaths & turbulence in Ministry there lead to delays in meetings there and delays in approvals to industry. The Revised COD of January 2025 has been approved by the Union Bank and accordingly the repayment schedule has been shifted by one year too.

#### **Susceptible to volatility in raw material prices and foreign exchange fluctuation risks:**

The primary raw material for manufacturing is cotton and polyester yarn. Prices of both raw materials is susceptible to international and domestic demand- supply dynamics.



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Additionally, as company derives 62% of its revenues from the overseas markets, it is also susceptible to volatility in forex rates. However, the same is partly offset by the hedging of export receivables undertaken by the company. IVR believes that STL should be able to improve its operating margins in the medium term, notwithstanding the volatility in the prices of its key inputs, on the back of its established position in the domestic and overseas markets.

### **Working capital intensive nature of operations:**

The operating cycle of the company has remained elongated at 124 days in FY24 mainly because of high inventory holding period. The inventory remains high as the company stocks yarn during the year-end. Thus, on one hand, the company's profitability remains susceptible to unforeseen corrections in yarn prices, which can lead to inventory losses; on the other hand, a stable price may lead to higher carrying cost without any foreseen benefits. The business will remain working capital intensive, leading to prolonged and working capital intensive operations.

**Analytical Approach:** Standalone Approach

### **Applicable Criteria :**

[Rating Methodology for Service Sector entities](#)  
[Financial Ratios & Interpretation Non- Financial Sector](#)  
[Criteria for assigning rating outlook](#)  
[Policy on Default Recognition](#)  
[Complexity Level of Rated Instruments/Facilities](#)

### **Liquidity – Adequate**

Liquidity is marked by comfortable expected accruals of Rs.11.89-23.91 crore over the next three fiscal as against its Rs.1.17-Rs. 9.65 crore each year repayment obligations. The working capital limits also remained moderately utilized at 74.39% in the last twelve months ending July, 2024. The liquidity as reflected by Current Ratio also remains at 1.60x in FY24.



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IVR notes that with STL's annual cash accruals from operations are expected to remain adequate to service the overall interest obligations in a timely manner over the medium term.

### **About the Company**

Sara Textiles Limited (STL) is a closely held public limited company, incorporated in 2003 and commenced its commercial production in 2004. It is engaged in the manufacturing of terry towels and trades in bathmats, bed sheets and other related products. The manufacturing unit of the company is in Nalagarh, H.P., with a total annual production capacity of 4200 MTP.

### **Financials (Standalone):**

For the year ended* As on	(Rs. crore)	
	31-03-2023	31-03-2024
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	238.91	257.10
EBITDA	12.53	13.08
PAT	4.28	2.85
Total Debt	50.22	70.13
Tangible Net worth*	83.54	94.24
EBITDA Margin (%)	5.24	5.09
PAT Margin (%)	1.77	1.10
Overall Gearing Ratio (x)	0.60	0.74
ISCR (x)	2.30	2.05

*\*as per Infomerics standards*

**Status of non-cooperation with previous CRA :** BWR Ratings in its press release dated Jan 16, 2024 has continued to place the rating under Issuer Not Cooperating category due to non-availability of information.

**Any other information:** : Nil

**Rating History for last three years:**

Sl.	Name of	Current Rating (Year 2024-25)	Rating History for the past 3 years
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No.	Instrument/ Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 Dated : Aug 21, 2023	Date(s) & Rating(s) assigned in 2022-23 Dated : Dec 23, 2022	Date(s) & Rating(s) assigned in 2021-22 Dated : Dec 16, 2021
1	Fund Based- Term Loan	Long Term	74.05	IVR BBB/Stable (IVR Triple B with Stable outlook)	IVR BBB/Stable (IVR Triple B with Stable outlook)	IVR BBB/Stable (IVR Triple B with Stable outlook)	IVR BBB/CWDI (IVR BBB With Credit watch with developing implications)
2	Fund Based – Cash Credit	Long Term	77.00	IVR BBB/ Stable (IVR Triple B with Stable outlook)	IVR BBB/ Stable (IVR Triple B with Stable outlook)	IVR BBB/ Stable (IVR Triple B with Stable outlook)	IVR BBB/CWDI (IVR BBB With Credit watch with developing implications)
3.	Non - Fund Based – Letter of Credit	Short Term	20.00	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)

### Name and Contact Details of the Rating Analyst:

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### About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).



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Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit [www.infomerics.com](http://www.infomerics.com)

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan			Sept 2032	24.00	IVR BBB/ Stable (IVR Triple B with Stable outlook)
Long Term Bank Facilities – Term Loan			Sept 2032	31.00	IVR BBB/ Stable (IVR Triple B with Stable outlook)





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					outlook)
Long Term Bank Facilities – Term Loan			Sep 2032	12.00	IVR BBB/ Stable (IVR Triple B with Stable outlook)
Long Term Bank Facilities – Term Loan			June 2027	2.28	IVR BBB/ Stable (IVR Triple B with Stable outlook)
Long Term Bank Facilities – Term Loan			Feb 2025	2.43	IVR BBB/ Stable (IVR Triple B with Stable outlook)
Long Term Bank Facilities – Term Loan			Dec 2025	2.34	IVR BBB/ Stable (IVR Triple B with Stable outlook)
Long Term Bank Facilities – Cash Credit			-	77.00	IVR BBB/ Stable (IVR Triple B with Stable outlook)
Short Term Bank Facilities – Letter of Credit			-	20.00	IVR A3+ (IVR A Three Pluss)

**Annexure 2: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/Len-Sara-Textiles-10oct24.pdf>

**Annexure 3: Detailed explanation of covenants of the rated securities/facilities: Not Applicable**

**Annexure 4: List of companies considered for consolidated analysis : Nil**



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**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com)

