



Press Release

Sara Textiles Limited

December 16, 2021

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	9.09	IVR BBB/Credit Watch with Developing Implications (IVR Triple B Credit Watch with Developing Implications)	Assigned
Short Term Bank Facilities	51.00	IVR A3+ (IVR A Three Plus)	Assigned
Short Term Bank Facilities	20.00	IVR A3+ (IVR A Three Plus)	Assigned
Long Term/Short Term Bank Facilities (Proposed)	5.00	IVR BBB/Credit Watch with Developing Implications (IVR Triple B Credit Watch with Developing Implications)/ IVR A3+ (IVR A Three Plus)	Assigned
Total	85.09	(Rupees Eighty Five Crores Nine Lakhs Only)	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Sara Textiles Limited derives comfort from experienced promoters, diversified customer base, established client relationship and above average financial risk profile. However, these strengths are partially offset by susceptibility to volatility in raw material prices, foreign exchange fluctuation risks, decline in revenues in FY21, intense competition in the operating segment and working capital intensive nature of operations. The outlook has been revised from Stable to Credit Watch with Developing Implications considering the decline in TOI in FY21 and to monitor the performance of the company in accordance to the projections made for FY22.

Key Rating Sensitivities:

Upward Factors

- Sustained and significant improvement in scale of operations by diversifying the geographical, customer and product profile, while sustaining its profitability.

Downward Factors



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- Decline in total operating income/ profitability on a sustained basis, or any major debt-funded capex or inorganic expansion weakens the liquidity profile or debt protection metrics.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters:

SIPL's management rests in the hands of Mr. Devinder Pal Singh, who has been associated with the company for over 25 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.

Diversified customer base & Established clientele relationship lends stability to revenue:

The promoters have experience of more than three decades in the home furnishings segment and have developed capability in the manufacturing of terry towels and also trades in bathmats, bed sheets and other related products. The company has an established customer base both in India and abroad. It has 12 major customers in the overseas market, mainly in the US and Europe. The international customer base has been expanding with the company targeting other markets such as the Middle East, Australia and Asia. The company has established relationship with large and reputed clients of USA & Europe, which has lent stability to its revenues. STL's relationship and ability to deliver quality products in the premium category resulted in repeat orders from its established clientele, thereby lending stability in its revenue and comfortable profitability.

Revenue is expected to rise to Rs.226.32 crore in fiscal 2022, backed by healthy demand for home textile products such as terry towels in the overseas market and in India.

Above average financial risk profile

The company's financial profile remains comfortable with a healthy capital structure and adequate debt protection metrics, backed by moderate margins and moderate debt levels.



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Tangible net worth of the company remains moderate at Rs. 75.82 Cr coupled with total debt to Rs. 57.26 Cr, resulting into moderate level of gearing at 0.76 times as on March 31, 2021 (PY: 0.63 times as on March 31, 2020). Furthermore, total indebtedness as reflected in TOL/TNW remains constant to 1.26x as on March 31, 2021, as against 1.22x as on March 31, 2020. Also, debt protection metrics remained comfortable as marked by ISCR of 2.9 times in FY2021 and DSCR at above 2.5 times as on March 31, 2021.

Key Rating Weaknesses

Sizeable fall in revenues in FY2021 & Intense competition in the operating segment:

The total operating income of Sara Textiles Limited has declined substantially by 18.60% from Rs.223.82 crore in FY2020 to Rs.181.87 crore in FY2021 as the factory was closed for almost 3 months due to covid-19 restriction as the factory lies in the containment zone announced by the Local Administration where the manufacturing was affected. Furthermore, STL has a moderate scale of operations in an intensely competitive terry towel segment with major competitors continuously increasing their capacities. STL faces stiff competition from established domestic players in the terry towel industry besides competition from imports resulted in increasing pressure on the company's revenue and profitability. Further, with a capacity of 4200 MT per year, its scale of operations in the segment is also moderate. As on November, 2021, the company has achieved a revenue of Rs.153.18 Crs with PBT of Rs.1.97 Crores which gives a comfort in achieving projected TOI of Rs. 226.32 Cr.

Profitability vulnerable to fluctuations in raw material prices, forex rates and regulatory policies:

STL's profitability (OPM and RoCE of 5.62% and 3.33% in FY2021) remain vulnerable to volatility in yarn prices as there is a lag between order booking and deliveries. Its profitability remains vulnerable to forex rates fluctuations as more than 61% of the net sales is derived from exports in FY2021. Nonetheless, the company's unhedged exposure remains relatively lower due to formal hedging policy. STL's profitability, like that of any other textile players are supported by export incentives, which have historically accounted as its operating profits.



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Thus, the company's profitability remains exposed to any adverse changes in the policies by the Government.

Working capital intensive nature of operations:

STL has an elongated working capital cycle of 153 days in FY2021 owing to high inventory holding days of 156 days and high receivable days of 59 days, making its operations working capital intensive. The company needs to initiate steps to reduce its working capital cycle to more acceptable levels. Though large, the working capital requirement is expected to be managed prudently through timely realization of receivables and healthy accrual.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

Liquidity is stretched. Bank limit utilisation was high at ~97% during the seven months ended July 21. Liquidity is marked by comfortable expected accruals of Rs.8.26-9.14 crore over the next three fiscal as against its Rs.2.23-3.80 crore each year repayment obligations. The working capital limits also remained moderately utilized at 90% in the last twelve months ending September, 2021. Liquidity is further supported by comfortable capital structure marked by its significantly reduced debt level and healthy net worth due to regular retention of profits during the fiscal. The liquidity as reflected by Current Ratio is also remain at 1.50x in FY21.

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



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towels and also trades in bathmats, bed sheets and other related products. The manufacturing unit of the company is located in Nalagarh, H.P., with a total annual production capacity of 42000 MTPA.

Financials (Standalone):

(Rs. Crore)

For the year ended* / As on	31-03-2020	31-03-2021
	(Audited)	(Audited)
Total Operating Income	223.82	181.77
EBITDA	13.22	10.22
PAT	1.42	0.39
Total Debt	47.73	57.26
Tangible Net worth	75.24	75.82
EBIDTA Margin (%)	5.90	5.62
PAT Margin (%)	0.63	0.21
Overall Gearing Ratio (x)	0.63	0.76

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Brickwork ratings have moved the rating to BWR BB+/Negative/INC and BWR A4+/INC via press release dated 22-Oct-2021.

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Fund Based Bank Facilities – Covid Lines/GECL	Long Term	9.09	IVR BBB/Credit Watch with Developing Implications	-	-	-
2.	Fund Based Bank Facilities-EPC/PCFC	Short Term	51.00	IVR A3+	-	-	-
3.	Non-Fund Based Bank Facilities-ILC/FLC	Short Term	20.00	IVR A3+	-	-	-



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Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
4.	Proposed	Long/Short Term	5.00	IVR BBB/Credit Watch with Developing Implications/IVR A3+	-	-	-

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About Infomerics:

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Annexure 1: Details of Facilities



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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Year	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Fund Based Bank Facilities – Covid Lines/GECL	-	-	-	9.09	IVR BBB/Credit Watch with Developing Implications
Fund Based Bank Facilities- EPC/PCFC	-	-	-	51.00	IVR A3+
Non-Fund Based Bank Facilities- ILC/FLC	-	-	-	20.00	IVR A3+
Proposed	-	-	-	5.00	IVR BBB/Credit Watch with Developing Implications/IVR A3+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Sara-Textiles-lenders-dec21.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Covid Lines/GECL	Simple
2.	EPC/PCFC	Simple
3.	ILC/FLC	Simple

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.