



## Press Release

### Sara Textiles Limited

**August 21, 2023**

#### **Ratings**

Instrument Facility	Amount (Rs. Crore)	Previous Ratings	Current Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long term Bank Facilities	153.47	IVR BBB /Stable Outlook (Pronounced as IVR Triple B with Stable Outlook)	IVR BBB /Stable Outlook (Pronounced as 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>173.47</b>	<b>(One Hundred Seventy three Crores &amp; Forty Seven Lakhs Only)</b>			

**Details of Facilities are in Annexure 1**

#### **Detailed Rationale**

The rating re-affirmed 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, Project implementation risk, intense competition in the operating segment and working capital intensive nature of operations.

#### **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**

- 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.



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### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

##### **Experienced promoters:**

STL'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 bath mats, 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 lend 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.

##### **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. Tangible net worth of the company remains moderate at Rs.86.98 Cr coupled with total debt to Rs.49.99 Cr, resulting into moderate level of gearing at 0.57 times as on March 31, 2023 (PY: 0.70 times as on March 31, 2022). Furthermore, total indebtedness as reflected in TOL/TNW further improved to 0.92x as on March 31, 2023 as against 1.19x as on March 31, 2022. Also,



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debt protection metrics remained comfortable as marked by ISCR of 4.78x times in FY2023 and DSCR at 1.78 times as on March 31, 2023.

### **Key Rating Weaknesses**

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

The main raw material purchased by the company is cotton and polyester yarn, making it susceptible to changes in its prices. The exports of STL constituted around 70% of the total sales. As a result, STL's business is also exposed to fluctuations in foreign exchange 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.

#### **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 estimated total project cost Rs. 95.85 Crore, which will have funded through Rs. 28.85 Crore promoter contribution (Rs 16.35 Crore will be from Internal accruals and Rs 12.50 Crore will be from fresh infusion) and Rs. 67.00 Crore term loan from bank/FIs.

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

STL's profitability (OPM and RoCE of 7.14% and 9.83% in FY2023) 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 70% of the net sales is derived from exports in FY2023(P). 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 125 days in FY2023 owing to high inventory holding days of 112 days and high receivable days of 50 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 realisation of receivables and healthy accrual.

**Analytical Approach:** Standalone

**Applicable Criteria :**

[Rating Methodology for Manufacturing entities](#)  
[Financial Ratios & Interpretation Non- Financial Sector](#)  
[Criteria for assigning rating outlook](#)

### **Liquidity – Adequate**

Liquidity is marked by comfortable expected accruals of Rs.16.45-25.11 crore over the next three fiscal as against its Rs.3.25-Rs. 8.44 crore each year repayment obligations. The working capital limits also remained moderately utilized at 74.28% in the last twelve months ending June, 2023. The liquidity as reflected by Current Ratio is also remain at 1.90x in FY23.

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 also trades in bathmats, bed sheets and other related products. The manufacturing



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unit of the company is located in Nalagarh, H.P., with a total annual production capacity of 4200 MTPA

### Financials (Standalone):

			(Rs. crore)
For the year ended* As on	31-03-2022	31-03-2023	
	Audited	Provisional	
Total Operating Income	230.65	248.50	
EBITDA	10.79	17.74	
PAT	3.07	7.72	
Total Debt	55.14	49.99	
Tangible Net worth*	79.10	86.98	
EBITDA Margin (%)	4.68%	7.14%	
PAT Margin (%)	1.32%	3.10%	
Overall Gearing Ratio (x)	0.70x	0.57x	

\*as per Infomerics standards

**Status of non-cooperation with previous CRA :** : BWR Ratings in its press release dated Oct 21<sup>st</sup>, 2022 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. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. crore)	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23 Dated : Dec 23 <sup>rd</sup> , 2022	Date(s) & Rating(s) assigned in 2021-22, Dec 16, 2021	Date(s) & Rating(s) assigned in 2020-21
1	Fund Based Bank Facilities – Term Loan	Long Term	76.47	IVR BBB /Stable Outlook (Pronounced as IVR Triple B with Stable Outlook)	IVR BBB /Stable Outlook (Pronounced as IVR Triple B with Stable Outlook)	IVR BBB /CWDI (Pronounced as IVR Triple B with CWDI)	-



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2	Fund Based Bank Facilities -Cash Credit	Long term	77.00	IVR BBB /Stable Outlook (Pronounced as IVR Triple B with Stable Outlook)	IVR BBB /Stable Outlook (Pronounced as IVR Triple B with Stable Outlook)	IVR BBB /CWDI (Pronounced as IVR Triple B with CWDI)	-
3	Non-Fund Based Bank Facilities- LC/BG	Short Term	20.00	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:

Name: Mr. Om Prakash Jain  
Tel: (011) 45579024  
Email: [opjain@infomerics.com](mailto:opjain@infomerics.com)

### 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).

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





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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				76.47	IVR BBB/Stable Outlook (Pronounced as IVR Triple B with Stable Outlook)
Long Term Bank Facilities – Cash Credit				77.00	IVR BBB /Stable Outlook (Pronounced as IVR Triple B with Stable Outlook)
Short Term Bank Facilities – Bank Guarantee/LC				20.00	IVR A3+ (IVR A Three Plus)

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



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**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/len-sara-aug23.pdf>

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

**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)

