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S D Polytech Pvt Ltd

September 11, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities- Cash Credit	20.00	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	Assigned
2.	Long Term Bank Facilities- Term Loan	32.00	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	Assigned
	Total	52.00 (Rupees fifty two crore only)		

Details of Facilities are in Annexure 1.

Detailed Rationale

The rating assigned to the bank facilities of S D Polytech Private Limited (SDPPL) considers the close operational and financial linkages between SDPPL and its group company, Sree Durga Fibre Products Pvt Ltd (SDFPL). Infomerics has taken a consolidated view of these entities referred together as Sree Durga group. The rating takes into account the consolidated entity's established track record and longstanding experience of the promoters, diversified product range in thermoware products, strong presence in market, stable financial performance and comfortable capital structure with adequate debt protection metrics. Further, the rating also notes strong liquidity of the group. However, these rating strengths are partially offset by susceptibility of profitability to fluctuations in raw material prices, its exposure to Government Regulations and presence in highly competitive and fragmented industry.

Key Rating Sensitivities:

Upward Factor:



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- Substantial and sustained growth in operating income, operating margin and cash accrual
- Improvement in working capital management with improvement in liquidity
- Improvement in capital structure and debt protection metrics with overall gearing ratio to remain below 1.0x on sustained basis

Downward Factors:

- Moderation in operating income and cash accrual impacting the debt protection metrics on a sustained basis
- Stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure weakens the financial risk profile, particularly liquidity.
- Deterioration in overall gearing to over 1.5x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record and longstanding experience of the promoters**

Sree Durga group has an established operational track record in the jute industry. Over the years, the group had established healthy relationship with its customers and suppliers. The overall affairs of the SDPPL are managed by Mr. Sunil Jain, Mr. Surendra Kumar Agarwal and Mr. Vinay Agarwal, having experience of around three decades. All of them together look after the overall functioning of the company.

- **Diversified product range in thermoware products and strong presence in market**

Sree Durga group sells its premium disposable thermoware under “Kohinoor” and “Kohinoor Plus” brands and the economy disposable thermoware under “Double Diamond” brand through its flagship company SDFPL. It sells its product directly to the wholesalers. Most of the sales are made in North India, primarily in Uttar Pradesh and Uttarakhand. It has a stronger presence in Uttar Pradesh. The group, commands a premium for its thermoware products as SDFPL is among the top manufacturers in this segment and provides high-quality products. Further, the group enhanced its product profile with addition of cotton,



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polyester yarns through SDPPL. Infomerics expects, long presence of the promoters in the industry will help the group to establish its position in yarn segment as well.

- **Stable financial performance**

SDPPL started commercial operation from January 2019. With contribution of SDPPL the combined revenue of the group witnessed y-o-y growth of ~20% in FY19 to Rs.108.07 crore. Further, during FY20 the combined revenue witnessed significant y-o-y growth of ~115% on the back of sharp increase in revenue from SDPPL with stabilization in its operation. The EBITDA margin of the group remained comfortable in the vicinity of 11%-12% during FY17-19. However, the combined EBITDA margin dampened in FY20 largely due to comparative lower margin in man-made fibre segment in SDPPL though the standalone EBITDA margin of SDFPL remained stable at around 13%. Further, the group has already booked turnover of around Rs.53.04 crore in 4MFY21. Infomerics expects, going forward the earnings of the group will be driven by growth in its man-made fibre segment through SDPPL.

- **Comfortable capital structure and debt protection metrics**

The group has a comfortable capital structure mainly on account of its satisfactory net worth base of Rs.95.54 crore as on March 31, 2019 (including subordinated USL of Rs.22.62 crore). The overall gearing ratio of the group remained comfortable and stood at 0.27x as on Mar.31, 2019 vis-a-vis 0.72x as on March 31, 2018. However, as per FY20 provisional, overall gearing of group has moderated marginally to 0.53x with higher borrowings in its newly acquired SDPPL. Total indebtedness of the group as reflected by the TOL/TNW stood satisfactory at 0.60x as on March 31, 2020. Debt protection parameters marked by interest coverage ratio and Total Debt to GCA remained comfortable at 8.89x and 2.50 years in FY19. As per FY20 (Prov.) the group reported interest coverage of 3.25x and Total debt to GCA of 4.31 years.

Key Rating Weaknesses

- **Susceptibility of profitability to fluctuations in raw material prices and exposure to Government Regulations**

The primary raw material for manufacturing of disposable thermoware is general purpose polystyrene, the price of which has remained volatile over the years. Since raw material consumption constitutes a significant portion of the total cost of production, any increase in prices would adversely impact the profitability, given the time lag in revision of prices of the



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final product. Raw jute is the only raw material required for the manufacturing of jute products. The company procures jute from local suppliers in West Bengal. Jute is available in abundance as West Bengal is the largest cultivator of jute in India, but its availability also depends on a combination of factors like government policies, and the prevailing demand-supply scenario etc. The jute stocking season is mainly from September-March and thus the year-end raw jute inventory remains on the higher side. Similarly, the margins from cotton yarn segment is highly susceptible to changes in the prices of cotton. The price of cotton is fixed by the government through the Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with suppliers as well. Any adverse movement of cotton prices further impacts profitability.

- **Highly competitive and fragmented industry**

The jute, disposable thermoware and cotton spinning industry is highly fragmented and competitive with the presence of large number of organised and unorganised players. Intense industry competition coupled with commoditised nature of the products limits group's pricing flexibility and bargaining power.

Analytical Approach: Consolidated. For arriving at the rating, Infomerics has combined the financial risk profiles of Sree Durga Fibre Products Pvt Ltd and S D Polytech Pvt Ltd as these entities run under a common management, have strong operational and financial linkages and cash flow fungibility. Further, we have received an undertaking from Sree Durga Fibres Products Pvt Ltd, where it undertakes to infuse funds in S D Polytech Pvt Ltd whenever required to meet its interest and loan repayment obligations in case of any shortfall. Both the companies' combined referred as Sree Durga group hereafter. The lists of Companies considered for consolidation are given in Annexure 2.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Strong

The group had generated healthy cash accrual of around Rs.12.50 Cr in FY20 (Prov.) as against repayment obligation of around Rs.1.00 crore. Further, the group is also expected to generate steady cash accrual over the near medium term against its repayment obligation of



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Rs.1.00 crore to Rs.2.10 crore during FY21-23. Moreover, the group has adequate gearing headroom on the back of its strong capital structure.

About the company

Incorporated in December 2014, S D Polytech Private Limited (SDPPL) was promoted by the promoters of Sree Durga Fibre Products Private Limited (SDFPL). In order to diversify the group's operations, the promoters acquired an existing spinning mill in SIIDCUL Industrial Area, Sitarganj, previously owned by Innovative Textile Limited through slump sale and started its operations under S D Polytech Private Limited (SDPPL) from January, 2019. The company is capable of producing Cotton yarn, Polyester yarn as well as Polyester Cotton yarn with an installed capacity of 43,440 spindles with a scope of expansion of 12,000 spindles more at its manufacturing plant located at Sitarganj, Uttar Pradesh. SDPPL currently manufactures cotton yarn, polyester yarn, cotton and polyester blend yarn and fabrics.

SDFPL engaged in manufacturing of jute products like jute yarn, ban, ropes and disposable thermoware was promoted by Mr. Sunil Jain and Mr. Surendra Kumar Agarwal in 1995.

Financials: Combined

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	108.07	233.56
EBITDA	12.02	18.41
PAT	5.58	7.42
Total Debt	25.55	53.94
Tangible Net worth	95.54	102.36
EBITDA Margin (%)	11.12	7.88
PAT Margin (%)	5.09	3.15
Overall Gearing Ratio (x)	0.27	0.53

*Classification as per Infomerics' standards.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	18.38	156.47
EBITDA	-0.36	8.43
PAT	-1.67	0.47
Total Debt	20.15	52.49
Tangible Net worth including quasi equity	55.06	54.99



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For the year ended* / As On	31-03-2019	31-03-2020
EBITDA Margin (%)	-1.96	5.39
PAT Margin (%)	-8.54	0.30
Overall Gearing Ratio (x)	0.23	0.95

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	20.00	IVR BBB; Stable Outlook	-	-	-
2.	Term Loan	Long Term	32.00	IVR BBB; Stable Outlook	-	-	-

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.



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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 Fund Based Limits-Cash Credit	-	-	-	20.00	IVR BBB; Stable Outlook
Long Term Fund Based Limits-Term Loan	-	-	December,2030	32.00	IVR BBB; Stable Outlook

Annexure 2

Name of the Company	Consolidation Approach
S D Polytech Pvt Ltd	Full consolidation
Sree Durga Fibre Products Private Limited	Full consolidation