



Press Release

Sitaram India Limited

January 01, 2021

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	50.41	IVR BB-;Stable (IVR Double B Minus with Stable Outlook)	Assigned
2	Short Term Bank Facilities	0.58	IVR A4 (IVR A Four)	Assigned
		50.99		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Sitaram India Limited (SRIL) derives comfort from its experienced promoter with long track record of operations, locational advantage, reputed brand name with variety in product offerings and adequate demand of its manufactured products. These rating strengths are partially offset by its small scale of operations, presence in a highly competitive industry, susceptibility to fluctuation in raw material prices, moderate financial risk profile and working capital intensive nature of its operation.

Rating Sensitivities

Upward factors

- Growth in scale of business with improvement in profitability metrics thereby leading to improvement in cash accruals on a sustained basis.
- Maintenance of capital structure with overall gearing of less than 1.50x with improvement in debt protection metrics
- Improvement in working capital cycle leading to improvement in liquidity

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators on a sustained basis
- Deterioration in working capital management impacting the liquidity and moderation in overall gearing to more than 3 times.



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Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoter with long track record of operation**

The promoters have over three decades of experience in the respective industry. Mr. Anil Kumar Nuwal (Director) is at the helm of affairs of the company with support from other three directors- Mr. Jugal Kishore Nuwal, Mr. Madhu Sudan Nuwal and Mrs. Harshit Nuwal and a team of experienced professionals. Furthermore, the company has started operations from 1987, thus having over a three decades of operational track record.

- **Reputed brand name and variety in product offerings**

SRIL manufactures various types of fabrics like cotton, polyester, viscose, denim, linen and other allied fabrics specifically for men's wear under the brand name of "Sitaram", "Stardom" and "Swiss Arrow". The brand names are well recognised in the market and variety of products able to cater to different type of customers segments.

- **Adequate demand of the manufactured product along with location advantage**

India, being a highly populated country, has high domestic demand of textile products. This apart, textile of one of the largest sector which generates export sales and one of the largest employers in the country. This apart, Rajasthan and nearby states like Gujarat, Maharashtra and Haryana are the hub of cotton and polyester producers which helps easy availability of raw materials and skilled workers.

Key Rating Weaknesses

- **Small scale of operation**

Total operating income (TOI) of the company remained small and has shown an erratic movement during the last three financial years due to volatility in demand and stood at ~Rs.58 crore in FY20. Total operating income decreased from ~Rs.65 crore in FY19 owing to decline in sales volume and realisation from fabric. Moreover, company incurred net loss of Rs. 3.75 crore in FY20 against net profit of Rs. 0.90 crore in FY19 though there was no cash loss and the company has earned gross cash accruals of Rs.1.85 crore. Small scale of operation restricts the financial risk profile of the company. During 7MFY21, the company



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earned a revenue of ~Rs.14 crore. Infomerics expects that the scale of operations of the company will continue to remain small in the near term.

- **Presence in a highly competitive industry**

The textile industry in India is highly fragmented with presence of many established players in the market. The company has to compete with established brands in the market. Further, there are several unorganised players in the industry. As a result, it has to work with high pressure on margins due to the highly competitive nature of the industry.

- **Fluctuation in raw material prices**

The key raw material required for manufacturing of fabric is yarn and to manufacture yarn, raw material used is POY (polyester oriented yarn). This apart cotton is also a natural product which production is also volatile in nature. The prices of POY are subject to the volatility in the crude oil prices and accordingly the profit is exposed to volatility in raw material prices. The cost of raw materials comprises of a major portion of cost of goods sold and thus price volatility would expose the company to a higher risk. However, the company is able to pass on the volatility in raw material prices to its customers with a time lag of around two months.

- **Moderate financial risk profile**

Financial risk profile of the company is moderate in nature where the capital structure is leveraged marked by overall gearing ratio of 2.26x as on March 31, 2020. This apart, interest coverage ratio was 1.06x and total debt to GCA was high at 25.82x during FY20. However, TOL/TNW was at 2.64x as on March 31, 2020. The credit risk profile of the company appears to be high due to sizable near term debt repayment obligations.

- **Working capital intensive nature of operation**

The operation of the company is working capital intensive due to its high inventory period as the company stocks raw material to avoid price fluctuation risk and regular production throughout the year. In FY20, operating cycle was remained elongated to 229 days. The average utilisation of fund based working capital limits stood high at ~93% during the trailing 12 months ended November, 2020.



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Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial sector)

Liquidity: Stressed

SRIL has earned gross cash accruals of Rs.1.85 crore in FY20 and is expected to earn gross cash accruals in the range of ~Rs.3-10 crore as against debt repayment obligation in the range of ~Rs.3-9 crore during FY21-23. The liquidity position of the company is appearing to be stressed marked by its high repayment obligation in the projected years with respect to its expected gross cash accruals. Further, working capital intensive nature of operation with elongated operating cycle and high working capital utilisation at ~93% during the past 12 months ended November 2020 also indicates a limited liquidity buffer.

About the Company

Sitaram India Limited (SRIL) was incorporated in 1987 as "Swagat Synthetics Pvt Ltd (SSPL)" to initiate a textile manufacturing business in Rajasthan. During, October 2015, SSPL rechristened as Sitaram Fashion Pvt Ltd (SFPL) and during the same year November, SFPL was rechristened as SRPL and converted into a Public Limited Company, SRIL. SRIL manufactures various types of fabrics like cotton, polyester, viscose, denim, linen and other allied fabrics specifically for men's wear with its two manufacturing units located in Bhilwara district of Rajasthan with total installed capacity of 1 crore meters per annum. The company procured product specific year from domestic manufactures and make fabrics. Currently, Mr. Anil Kumar Nuwal (Chairman) is at the helm of affairs of the company along other three directors and a team of experienced personnel.



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Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	65.23	57.65
EBITDA	8.82	4.80
PAT	0.90	-3.75
Total Debt	44.82	47.68
Tangible Net worth	24.85	21.12
EBITDA Margin (%)	13.52	8.33
PAT Margin (%)	1.32	-6.32
Overall Gearing Ratio (x)	1.80	2.26

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: INC from ICRA as per PR dated Sept.29, 2020 due to non-submission of information by the company.

Any other information: Nil

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)	Rating	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	Term Loan	Long Term	16.78	IVR BB- / Stable	-	-	-
2	Demand Loan BCECL	Long Term	2.50	IVR BB- / Stable	-	-	-
3	FITL	Long Term	1.06	IVR BB- / Stable	-	-	-
4	WCTL	Long Term	8.07	IVR BB- / Stable	-	-	-
5	Cash Credit	Long Term	22.00	IVR BB- / Stable	-	-	-
6	Bank Guarantee	Short Term	0.25	IVR A4	-	-	-
7	Forward Contract	Short Term	0.33	IVR A4	-	-	-



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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.

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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 - Term Loan	-	-	Dec 2024	16.78	IVR BB-/Stable
Long Term Fund Based Limits - Cash Credit	-	-	-	22.00	IVR BB-/Stable
Long Term Fund Based Limits - Demand Loan	-	-	-	2.50	IVR BB-/Stable
Long Term Fund Based Limits - FITL	-	-	-	1.06	IVR BB-/Stable
Long Term Fund Based Limits - WCTL	-	-	-	8.07	IVR BB-/Stable
Short Term Non-Fund Based Limits - BG	-	-	-	0.25	IVR A4
Short Term Non-Fund Based Limits - Forward Contract	-	-	-	0.33	IVR A4