April 25, 2022

SRV Synthetics: Long-term rating upgraded to [ICRA]A-(Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	10.00	10.00	[ICRA]A-(Stable); upgraded from [ICRA]BBB+(Stable)
Long-term Fund-based – Term Loans	3.87	1.77	
Long-term – Unallocated Limits	14.19	16.29	
Short-term Non-fund based – Bank Guarantee	2.00	2.00	[ICRA]A2+; reaffirmed
Short-term Fund-based – Packing Credit	0.50	0.50	
Short-term Non-fund based – Letter of Credit^	(10.00)	(10.00)	
Total	**30.56**	**30.56**	

**Instrument details are provided in Annexure-1*
^Sublimit of Cash Credit facility

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of the SRV Group comprising SRV Synthetics (SRVS), Suraj Industries (SI) and SRV Polytex Private Limited (SRVPPL), given their strong operational and financial linkages, presence in the same business segment as well as the common management. SRVPPL and SI have extended corporate guarantees towards the bank facilities of SRVS. SRVPPL has also provided corporate guarantee towards bank borrowings of SI.

The rating action reflects the steady operating and financial performance of the Group in FY2021 and FY2022 (provisional) on the back of a substantial improvement in the average realisations and efficient raw material cost management by the Group, translating into healthy liquidity position and comfortable debt protection metrics. Despite a ~28% YoY decline in the operating income to ~Rs. 300 crore in FY2021, the Group's operating profitability improved substantially to 14.7% (7.1% in FY2020) on the back of lower raw material costs. The Group leveraged its robust liquidity to stock raw material inventory at low prices, which supported its gross margins. In FY2022, the operating revenue recorded a ~47% YoY growth to ~Rs. 440 crore (provisional), driven by a substantial increase in the average realisations of yarn owing to an increase in prices of crude oil. ICRA will continue to monitor the impact of volatility of market prices of yarn on the Group's financial performance and expects the Group to maintain its operating margins at 6-7% p.a. over the medium term. The ratings also derive comfort from the sustained improvement in the liquidity profile of SRV Group, though the business was impacted in FY2021 due to the pandemic-induced disruptions. Besides, ICRA expects that the Group will maintain a robust liquidity profile over the medium term, driven by healthy cash flow from operations, low capital expenditure requirements and minimal debt repayment obligations coupled with healthy buffer from unutilised working capital facilities.

The ratings continue to favourably factor in the extensive experience of the SRV Group's promoters in the textile industry as well as its established and diversified customer base. The ratings derive comfort from the Group's presence in the high value-added yarn segment (with spandex yarn accounting for ~70% of yarn production) and forward integration into fabric knitting, which supports the Group's margin profile. Its capital structure continues to remain conservative with a gearing of 0.2 times and Total Debt/OPBDITA of 0.8 times as on March 31, 2022 (provisional).

The ratings, however, continue to remain constrained by the vulnerability of the Group's operating income and margins to fluctuation in the prices of key raw material (partially oriented yarn), which is a crude oil derivative. In addition to this, the ratings factor in the intense competition in the industry and the commoditised nature of products, which limits the Group's bargaining power. Further, ICRA notes the inherent risks associated with the partnership constitutions of the two entities in the Group, including the risk of capital withdrawals.

The Stable outlook on the long-term ratings reflects ICRA's opinion that the Group will continue to benefit from the extensive experience of its partners in the textile industry and the Group's focus on high value-added textile products, which is likely to support the augmentation of its scale of operations and stable profitability while maintaining healthy liquidity and low reliance on external debt.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter/partners in the textile industry – The key promoters/partners, Mr. Rajendra Shah and Mr. Sudhir Shah, along with second generation family members, have substantial experience spanning over 30 years in the textile sector across yarn trading, spinning of yarn and knitting of fabric. Over the years, the SRV Group has established itself as a prominent player in the textile market and gained credibility through technological upgradation and customer focus.

Well diversified and established clientele coupled with wide distribution network – The SRV Group sells its main product, yarn, through a network of over 200 agents across the country. During the initial period, the distribution was limited to Maharashtra and adjoining areas. However, the Group has diversified its presence to a pan-India level. The Group's customer concentration has also been recording a decline with the top 10 customers' share in total revenue falling to 32% in 9M FY2022 from 46% in FY2019. The Group also exports yarn to countries including Thailand, Bangladesh and few African countries. However, the contribution of exports to the operating income continues to remain low at ~5% over the last five years.

Focus on high value-added textile products and forward integration aid margin stability – The Group focuses on the high value-added textile segment, with the spandex yarn accounting for ~70% of its yarn production. This has been witnessing a healthy offtake from denim and other apparel manufacturers. In addition to this, the Group has forward integrated its operations to manufacture greige knitted fabric, which finds utility in the hosiery industry. Focus on the high value-added products and forward integration into the textile value chain has aided the Group in margin expansion which has consistently grown to ~7.1% in FY2021 from 3.8% in FY2017.

Comfortable capital structure and healthy debt protection metrics – The SRV Group's capital structure continues to remain conservative with a gearing of 0.2 times as on March 31, 2022 (provisional) which improved from 0.4 times as on March 31, 2021. The improvement in capital structure is driven by healthy accretion to reserves, negligible debt-funded capex over the last two years and low utilisation of working capital limits due to tight inventory control. Aided by declining debt levels and improved profitability, the coverage indicators as reflected by OPBDITA/Interest and Total Debt/OPBDITA improved to 9.3 times and 0.8 times, respectively in FY2022 (provisional) from 5.6 times and 1.7 times, respectively in FY2020.

Credit challenges

Vulnerability of revenue and profitability to fluctuations in prices of raw materials and finished goods and inherent cyclicality in the textile industry - The Group's primary raw material, partially oriented yarn (POY), is a crude oil derivative which exhibits high price volatility. Although the Group benefits from bulk purchase of raw materials, its profitability remains exposed to adverse fluctuations in prices of key raw materials and its ability to pass on the same to its customers. Further, the textile sector in inherently cyclical and an industry-wide downturn is likely to adversely impact the Group's operating and financial profile. However, an asset-light model and tight control over working capital shield the Group from such risks to some extent.

Intense competition from other established players in the industry and commoditised nature of products – The polyester textile industry in India is characterised by high levels of fragmentation and low entry barriers across the value chain. As a result, the firm faces intense competition from other established players in the domestic and international markets. This, coupled with the commoditised nature of product with low avenues of product differentiation, limits the Group's pricing power.

Risks associated with partnership firms – With the two main entities in the Group having a partnership constitution, the entities remain exposed to the risk of capital withdrawals by the partners which could have repercussions for the entities' net worth and the liquidity position.

Liquidity position: Strong

The SRV Group's liquidity profile is strong, with free cash, liquid investments and undrawn working capital limits, aggregating to ~Rs. 40 crore as on March 31, 2022 (provisional), providing substantial liquidity buffer. The liquidity profile is further supported by low average utilisation of working capital facilities at 5% of the sanctioned limits (with commensurate drawing power) over the 18-month period ending March 31, 2022. The Group has no major capital expenditure plans over the medium term and term debt repayment obligations remain low at Rs. 5.6 crore both in FY2023 and FY2024 and Rs. 3.6 crore in FY2025. ICRA expects the Group to generate cash flow from operations worth ~Rs. 20 crore per annum over the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade the SRV Group's ratings in case of a sustained improvement in the operating income and profitability translating into healthy liquidity and comfortable debt coverage metrics. Specific credit metrics that could result in an upgrade include return on capital employed (RoCE) above 16% on a sustained basis.

Negative factors – Pressure on the ratings could emerge if a substantial and sustained decline in revenue and/or profitability leads to a decline in cash accruals. The ratings could also be downgraded in case of a deterioration in the working capital cycle, sizeable debt-funded capex or significant capital withdrawal, leading to weakening of the liquidity profile on a sustained basis. Specific credit metrics which could result in ratings downgrade include interest cover below 5.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textile Industry - Spinning Rating Methodology for Entities in the Textile Industry – Fabric Making Rating approach - Consolidation
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financial statements of Group entities (specified in Annexure 2) given the close business, financial and managerial linkages among them.

About the company

Established in 2009, SRV Synthetics is a partnership firm, which manufactures texturised yarn, high value-added yarn and knitted greige fabric. Its manufacturing facility is located in Silvassa in the Union Territory of Dadra and Nagar Haveli. The firm operates 12 texturising machines and 84 knitting machines with installed capacities of 12,244 MTPA and 3,832 MTPA, respectively.

About the group

The SRV Group comprises three entities – SRV Synthetics, Suraj Industries and SRV Polytex Private Limited. While SRV Polytex Private Limited is an investment entity, the other two entities manufacture texturised yarn, high value-added yarn and knitted greige fabric. The Group operates 35 texturising machines and 184 knitting machines with an installed capacity of 33,288 MTPA and 8,392 MTPA, respectively.

Key financial indicators (audited)

SRV Group (Consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	414.3	299.7
PAT (Rs. crore)	14.2	31.8
OPBDIT/OI (%)	7.1%	14.7%
PAT/OI (%)	3.4%	10.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.4
Total Debt/OPBDIT (times)	1.7	0.7
Interest Coverage (times)	5.6	11.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 25, 2022	-	Jan 29, 2021	Oct 04, 2019
1	Cash Credit	Long-term	10.00	-	[ICRA]A-(Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Term Loan	Long-term	1.77	1.77	[ICRA]A-(Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Unallocated Limit	Long-term	16.29	-	[ICRA]A-(Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
4	Bank Guarantee	Short-term	2.00	-	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+
5	Packing Credit	Short-term	0.50	-	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+
6	Letter of Credit^	Short-term	(10.00)	-	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+

^Sublimit of Cash Credit facility

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term Fund-based – Term Loans	Simple
Long-term – Unallocated Limits	N.A.
Short-term Non-fund based – Bank Guarantee	Simple

Short-term Fund-based – Packing Credit	Simple
Short-term Non-fund based – Letter of Credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	10.00	[ICRA]A- (Stable)
NA	Term Loan	FY2018	-	FY2024	1.77	
NA	Unallocated Limits	-	-	-	16.29	
NA	Bank Guarantee	-	-	-	2.00	[ICRA]A2+
NA	Packing Credit	-	-	-	0.50	
NA	Letter of Credit^	-	-	-	(10.00)	

Source: *Company*
^Sublimit of Cash Credit Facility

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Suraj Industries	Group entity	Full Consolidation
SRV Polytex Private Limited	Group entity	Full Consolidation

Note: *ICRA has taken a consolidated view of the Group entities while assigning the ratings.*

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About ICRA Limited:

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