

July 05, 2021

Partap Industries Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ CC	30.00	17.00	[ICRA]BBB+ reaffirmed; Outlook revised to Stable from Negative
Long-term – Fund-based/ TL	57.10	40.00	[ICRA]BBB+ reaffirmed; Outlook revised to Stable from Negative
Long-term – Unallocated	-	30.10	[ICRA]BBB+ reaffirmed; Outlook revised to Stable from Negative
Long-term/ Short-term – Non-fund Based	4.00	4.00	[ICRA]BBB+/[ICRA]A2; Outlook revised to Stable from Negative
Long-term/ Short-term – Unallocated	1.90	1.90	[ICRA]BBB+/[ICRA]A2; Outlook revised to Stable from Negative
Total	93.00	93.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA's ratings factor in the operational and financial linkage of Partap Industries Limited (PIL), Sudarshan Auto Industries Private Limited (SAIPL) and Sudarshan Jeans Private Limited (SJPL), which together form the Sudarshan Group. ICRA has based its ratings on the consolidated profile of the Sudarshan Group.

The ratings reaffirmation and revision in outlook to Stable considers the significant improvement in the Group's revenues and profitability in 9M FY2021 owing to healthy order addition and execution, despite the Covid-19 pandemic-related lockdown. Further, the profitability has been better owing to higher sales from the terry towel segment, which is more margin-accretive compared to denim and cotton yarn. In 7M FY2021, the towel segment contributed to around 41% of the revenue, followed by denim at 29% and cotton yarn at 24%. Further, the ratings factor in the Group's established market position in the textile business. The Group's diversified business (denim fabric, terry towel and cotton yarn) and geographical presence support the ratings. Its established distribution network and the extensive industry experience of its promoters are other credit strengths. The ratings draw comfort from the Group's backward integration within the value chain, which provides an edge over its competitors and allows the company to efficiently manage its cost structure.

The ratings are, however, constrained by the inherent cyclicity associated with the textile sector and the vulnerability of its profitability to fluctuations in the raw material prices (mainly cotton). ICRA also notes that any downward revision in the financial incentives may adversely impact the profitability margins.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the Group will continue to benefit from its established track record of operations in the textile business. Also, its comfortable capital structure and modest coverage indicators will support its credit profile.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in textile industry – Owned by Rajpura, Punjab-based Mr. Sudarshan Paul Bansal and his family, the promoters have extensive experience in the textile industry. Mr. Bansal established the first company of the Group, i.e. Partap Industries Limited (PIL) in 1991. In 2009, he floated another company named Sudarshan Jeans Private Limited.

Gradually, the Group expanded its spinning capacity to 43,050 MTPA, denim capacity to ~70 MPPA and terry towel capacity to ~23,000 MTPA. In October 2015, the Group incorporated Sudarshan Auto Industries Private Limited, which manufactures tyres on a job-work basis. The manufacturing plants of the Group are situated at Rajpura (Punjab), Kolhapur (Maharashtra), Indapur (Pune) and Amravati (Maharashtra).

Diversified revenue stream – Diversified business and geographical presence have helped buffer the impact of demand slowdown in the denim segment over the years. The Group has presence across cotton yarn, denim and towel businesses, which is likely to aid revenue growth going forward. In 7M FY2021, the towel segment contributed around 41% towards the revenue followed by denim at 29% and cotton yarn at 24%.

Benefits derived from large scale of operations, integrated operations; established relations with customers – The denim fabric and terry towel plants of the Group are backward integrated with in-house spinning capability, which caters to more than half of the captive demand of raw material. The Group has an established network of distributors spread across the northern, central and eastern parts of India.

Profitability supported by fiscal incentives under Central and state textile policies – Various sections of the Group's capex are eligible for healthy Central and state government incentives such as interest subsidy on loan availed, capital subsidy on plant and machinery (P&M), and reduction in power tariff meant for textile units. All these fiscal incentives help in reducing the payback period of the project and support profitability.

Credit challenges

Exposed to raw material price fluctuations – The Group manufactures cotton yarn, denim fabric and towels. Cotton constitutes a major portion of the total cost of production. Thus, it remains exposed to fluctuation in the prices of cotton owing to various agro-climatic reasons and the Government policies (through minimum support price).

Cyclicality in the denim industry – The denim industry has witnessed significant cyclicality in the past, with periods of excess market capacity and tight demand-supply situations. With several capacity additions across the industry, driven by increased denim demand and lucrative Government incentives, denim supply has exceeded the demand growth at present, exposing the Group to an over-supply situation in the domestic market.

Any downward revision in export incentives may impact profitability – The Government of India (GoI) extends various export incentives to encourage exporters which supports the operating profit margins. Thus, any change in incentives extended by the GoI to exporters or in the regulatory policies of importing countries can adversely impact the profitability and cash flows.

Liquidity position: Adequate

The Group's liquidity is expected to remain **adequate** with low utilisation of working capital limits and limited capital expenditure plans in the near term, providing comfort to the cash flow position. The Group's cash accruals are expected to be comfortable relative to its debt service obligations of around Rs. 50-55 crore per year, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the Group continues to demonstrate steady revenue and profitability margins, while maintaining adequate liquidity. Additionally, Total debt/OPBDITA below 2.3 times, on a sustained basis, may trigger a rating upgrade.

Negative factors – Pressure on the Group's ratings could arise if the revenues and profitability are lower or there is further worsening of return indicators and weakening of liquidity position. Any unanticipated large debt-funded capex that may put pressure on the cash flow or interest coverage remaining below 4.0 times, on a sustained basis, could also result in a downward rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and rating approach Indian Textiles Industry – Fabric Indian Textiles Industry – Spinning
Parent/Group Support	Not Applicable
Consolidation/Standalone	ICRA's ratings factor in the operational and financial linkage of Partap Industries Limited (PIL), Sudarshan Auto Industries Private Limited (SAIPL) and Sudarshan Jeans Private Limited (SJPL), which together form the Sudarshan Group. ICRA has based its ratings on the consolidated profile of the Sudarshan Group.

About the Group

Owned by Rajpura, Punjab-based Mr. Sudarshan Paul Bansal and his family, the Group comprises Partap Industries Limited, Sudarshan Jeans Private Limited and Sudarshan Auto Industries Private Limited. Mr. Bansal, along with his family members, holds 100% equity stake in PIL. Further, PIL holds 40.32% equity stake in SJPL, while the remaining stake is with the Bansal family. Both PIL and SJPL are into manufacturing of cotton yarn, denim fabric and towels. Further, PIL holds 99.5% equity stake in SAIPL, which manufactures rubber tyres on a job-work basis.

About the company

PIL is a part of Sudarshan Group. PIL commenced operations with its first spinning unit in Rajpura (Punjab) in 2002 with an installed capacity of 3,000 MTPA of cotton yarn. In 2005, it installed another spinning unit with capacity of 3,500 MTPA cotton yarn. Further, PIL has undertaken a step towards forward integration in the supply-chain and set up a denim fabric manufacturing unit in Rajpura (Punjab) in 2006. The plant's initial manufacturing capacity was 10 MMPPA, which was increased to 20 MMPPA in 2008. The company is utilising almost the entire spinning capacity for its captive consumption. In 2011-2012, the company undertook a greenfield project in Kolhapur, Maharashtra for setting up an open-ended yarn plant with a capacity to manufacture 8,050-MTPA cotton yarn and a terry towel plant with a capacity of 7,000 MTPA. In 2018, PIL set up a new ring-frame spinning unit at Amravati, Maharashtra for manufacturing fine-quality cotton yarn (40s counts) with an installed capacity of 5,250 MTPA.

Key financial indicators (audited)

Particulars	PIL [^]			Consolidated		
	FY2019	FY2020	9M FY2021 (Provisional)	FY2019	FY2020	9M FY2021* (Provisional)
Operating Income (Rs. crore)	296.5	365.3	225.8	731.8	743.2	599.7
PAT (Rs. crore)	6.6	-4.1	12.0	7.2	3.6	18.8
OPBDIT/OI (%)	8.9%	8.9%	14.3%	12.6%	11.8%	15.5%
PAT/OI (%)	2.2%	-1.1%	5.3%	1.0%	0.5%	3.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.9	0.7	1.6	1.6	1.3
Total Debt/OPBDIT (times)	4.2	2.7	1.3	3.3	3.5	2.0
Interest Coverage (times)	5.9	3.6	6.9	5.0	4.0	5.1

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

[^]Includes Sudarshan Auto Industries Private Limited

*Inter-related transactions not adjusted for 9M FY2021

Status of non-cooperation with previous CRA

CARE has revised the ratings to CARE BB/CARE A4; Issuer Not Cooperating from CARE BB+/CARE A4+; Issuer Not Cooperating on the basis of best available information on June 2, 2021. PIL continues to remain in the 'issuer noncooperating' category.

[Link](#)

CRISIL has suspended its CRISIL BB+ (Stable) rating on the bank facilities of PIL on October 14, 2016. The suspension of ratings is on account of non-cooperation by PIL with CRISIL's efforts to undertake a review of the ratings outstanding. [Link](#)

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in		
				Jul 5, 2021	FY2021	FY2020	FY2019	
1	Working capital limit	Long-term	17.00	(3.4)	[ICRA]BBB+ (Stable)	-	Jan 30, 2020	Oct 22, 2018
2	Term Loans	Long-term	40.00	39.4	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
3	Unallocated	Long-term	30.10	NA	[ICRA]BBB+ (Stable)	-	-	-
4	Bank Guarantee	Long-term/ Short-term	4.00	NA	[ICRA]BBB+ (Stable)/[ICRA]A2	-	[ICRA]BBB+ (Negative)/[ICRA]A2	[ICRA]BBB+ (Negative)/[ICRA]A2
5	Unallocated	Long-term/ Short-term	1.90	NA	[ICRA]BBB+ (Stable)/[ICRA]A2	-	[ICRA]BBB+ (Negative)/[ICRA]A2	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based/ CC	Simple
Long-term – Fund-based/ TL	Simple
Long-term – Unallocated	Not Applicable
Long-term/ Short-term – Non-fund Based	Very Simple
Long-term/ Short-term – Unallocated	Not applicable

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 analysing 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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working capital limit	NA	NA	NA	17.00	[ICRA]BBB+ (Stable)
NA	Term Loans	FY2019	NA	FY2025	40.00	[ICRA]BBB+ (Stable)
NA	Unallocated	NA	NA	NA	30.10	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	4.00	[ICRA]BBB+ (Stable)/[ICRA]A2
NA	Unallocated	NA	NA	NA	1.90	[ICRA]BBB+ (Stable)/[ICRA]A2

Source: PIL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Partap Industries Limited	100.00%	Full Consolidation
Sudarshan Auto Industries Private Limited	99.50%	Full Consolidation
Sudarshan Jeans Private Limited	40.32% ¹	Full Consolidation

Source: PIL

¹ The remaining shareholding is with Mr. Sudarshan Paul Bansal and his family members

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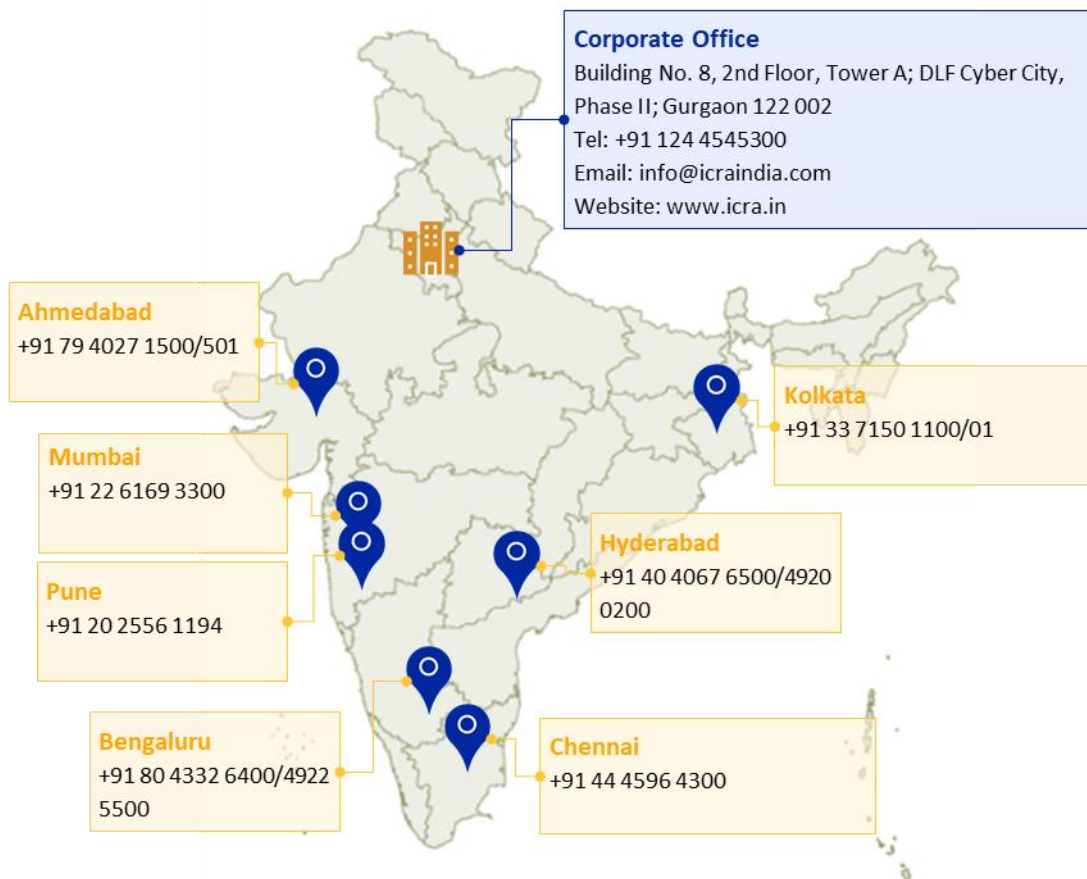
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