October 07, 2021

Partap Industries Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ CC	17.00	17.00	[ICRA]A-(Stable); Upgraded from [ICRA]BBB+(Stable)
Long-term – Fund-based/ TL	40.00	36.15	[ICRA]A-(Stable); Upgraded from [ICRA]BBB+(Stable)
Long-term – Unallocated	30.10	33.95	[ICRA]A-(Stable); Upgraded from [ICRA]BBB+(Stable)
Long-term/ Short-term – Non-fund Based	4.00	4.00	[ICRA]A-(Stable)/[ICRA]A2+; Upgraded from [ICRA]BBB+(Stable)/[ICRA]A2
Long-term/ Short-term – Unallocated	1.90	1.90	[ICRA]A-(Stable)/[ICRA]A2+; Upgraded from [ICRA]BBB+(Stable)/[ICRA]A2
Total	**93.00**	**93.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's ratings upgrade factors in the operational and financial linkages 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 considered the consolidated profile of the Sudarshan Group for arriving at the ratings.

The ratings upgrade takes into consideration the expected increase in the Group's scale owing to favourable domestic demand growth prospects in terms of volumes as well as realisations. Despite the Covid-19 pandemic-induced challenges, the Group's turnover grew by 10% in FY2021 along with an improved profitability, leading to an overall improvement in the Group's financial risk profile. ICRA expects that the Group's credit profile would continue to improve in FY2022 on the back of favourable demand conditions, stable margins and prepayment of some of its term loans. An improvement in profitability in the recent past as well as in the near term is supported by higher sales from the terry towel segment, which is more margin-accretive than the denim and cotton yarn. The ratings also consider the improvement in capitalisation and coverage metrics with improved profitability and reduction in total debt. The ratings continue to derive comfort from the long track record of the promoters in the textile industry and an established distribution network. The Group's diversified business (denim fabric, towel and cotton yarn) and geographical presence also support the ratings. Besides, 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 cyclicality associated with the textile sector and the vulnerability of its profitability to fluctuations in raw material prices (mainly cotton). ICRA also notes that any downward revision in the financial incentives may adversely impact the profit margins. During the past years, the Group has reduced its dependence on denim, which has witnessed a slowdown in demand as well a pressure on profitability. However, any further decline in the denim realisations would adversely impact the Group's profitability. As per ICRA's estimates, while the turnover of the Group is likely to increase significantly in FY2022 on account of a strong demand, especially in the towels segment, the profit margins are likely to remain stable. Nonetheless, a significant increase in cash accruals would provide comfort to debt coverage indicators, going forward. While the capital structure and coverage indicators remain modest at present, ICRA notes that any major capex in the future, funded largely by debt, could strain the capital structure and hence, would remain a key credit monitorable.

The Stable outlook emphasises ICRA's opinion that the company will be able to maintain its satisfactory profitability metrics aided by its well-integrated operation, improving demand and heathy capacity utilisation levels, leading to a stable credit profile.

Key rating drivers and their description

Credit strengths

Improvement in financial risk profile – The Group reported healthy revenues and profitability in FY2021, supported by an improved demand of cotton yarn and terry towels, despite the Covid-19 pandemic-induced challenges. In FY2021, the Group's operating income rose 10% to Rs. 819.2 crore and an operating margin of 14.2% vis-à-vis 11.8% in FY2020 supported by favourable demand and increased realisations. Further, with a reduction in debt and improved profitability, the gearing level and the debt coverage indicators too improved.

Extensive experience of promoters in the 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 MMPA 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 (Maharashtra) and Amravati (Maharashtra).

Diversified revenue streams – A 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 in revenue growth going forward. In FY2021, the towel segment contributed around 37% to the revenue, followed by denim at 31% and cotton yarn at 26%.

Benefits derived from large scale, integrated operations; established relationship with customers – The denim fabric and 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 materials. The Group has an established network of distributors spread across the northern, central and eastern parts of India.

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 Government policies (through minimum support price).

Cyclicality in the denim industry – The denim industry has witnessed a 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 support 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, healthy free cash flows and limited capital expenditure plans in the near term, providing comfort to the liquidity position. The Group has capex commitment of around Rs. 30 crore and scheduled repayments of ~Rs. 54 crore in FY2022, which are expected to be serviced comfortably through internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the Group demonstrates significant improvement in scale and profitability along with sizeable reduction in debt levels.

Negative factors – Pressure on the Group's ratings could arise if the revenues and profitability are lower or there is worsening of return indicators and weakening of liquidity position. Any unanticipated large debt-funded capex that may put pressure on the cash flow or Total debt/OPBDITA above 2.0 times, on a sustained basis, could result in a downgrade rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating approach – Consolidation Textiles – Fabric Textiles – 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 a 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 a 99.5% equity stake in SAIPL, which manufactures rubber tyres on a job-work basis.

About the company

Partap Industries Limited (PIL) is a part of the Sudarshan Group. PIL commenced operations of 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 a capacity of 3,500 MTPA of cotton yarn. Further, PIL strengthened forward integration in the supply chain and had set up a denim fabric manufacturing unit in Rajpura in 2006. The plant's initial manufacturing capacity was 10 MMPA, which was increased to 20 MMPA 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 for setting up an open-ended yarn plant with a capacity to manufacture 8,050-MTPA cotton yarn and a towel plant with a capacity of 7,000 MTPA. In 2018, PIL had set up a new ring-frame spinning unit at Amravati for manufacturing fine-quality cotton yarn (40s counts) with an installed capacity of 5,250 MTPA.

Key financial indicators (audited)

	PIL^		Consolidated	
Particulars	FY2020	FY2021	FY2020	FY2021
Operating Income (Rs. crore)	365.3	330.6	743.2	819.2
PAT (Rs. crore)	-4.1	8.5	3.6	15.2
OPBDIT/OI (%)	8.9%	13.0%	11.8%	14.2%
PAT/OI (%)	-1.1%	2.6%	0.5%	1.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	1.0	1.6	1.5
Total Debt/OPBDIT (times)	2.7	1.8	3.5	2.2
Interest Coverage (times)	3.6	6.2	4.0	4.6

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

^Includes Sudarshan Auto Industries Private Limited

Status of non-cooperation with previous CRA

CARE has revised the ratings to CARE BB (Stable)/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

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 ^ (Rs. crore)	Date & Rating in		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Oct 7, 2021	Jul 5, 2021	-	Jan 30, 2020	Oct 22, 2018
1	Working capital limit	Long-term	17.00		[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
2	Term Loans	Long-term	36.15	36.15	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
3	Unallocated	Long-term	33.95		[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-	-	-
4	Bank Guarantee	Long-term/ Short-term	4.00		[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]BBB+ (Stable)/[ICRA] A2	-	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2
5	Unallocated	Long-term/ Short-term	1.90		[ICRA]A (Stable)/[ICRA]A2+	[ICRA]BBB+ (Stable)/[ICRA] A2	-	[ICRA]BBB+ (Negative)/ [ICRA]A2	-

^as on August 31, 2021

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: Click Here

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Working capital limit	NA	NA	NA	17.00	[ICRA]A- (Stable)
NA	Term Loans	FY2019	NA	FY2025	36.15	[ICRA]A- (Stable)
NA	Unallocated	NA	NA	NA	33.95	[ICRA]A- (Stable)
NA	Bank Guarantee	NA	NA	NA	4.00	[ICRA]A- (Stable)/[ICRA]A2+
NA	Unallocated	NA	NA	NA	1.90	[ICRA]A- (Stable)/[ICRA]A2+

Source: *Company*

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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About ICRA Limited:

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