February 28, 2024

Partap Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/Cash Credit	15.00	15.00	[ICRA]A(Stable); reaffirmed
Long-term – Fund-based/Term Loans	25.76	21.64	[ICRA]A(Stable); reaffirmed
Long-term/Short-term – Unallocated	7.74	11.86	[ICRA]A(Stable)/ [ICRA]A2+; reaffirmed
Total	**48.50**	**48.50**	

**Instrument details are provided in Annexure-1*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of the credit profiles of the three entities in the Sudarshan Group (referred to as the Sudarshan Group or the Group), namely Partap Industries Limited (PIL), Sudarshan Auto Industries Private Limited (SAIPL) and Sudarshan Jeans Private Limited (SJPL).

The ratings reaffirmation considers the extensive experience of promoters in the textile industry and an established relationship of the Group with its customers. 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. In line with ICRA's estimates, while the scale and profitability of the Group moderated in FY2023 on account of correction in realisations and demand slowdown, debt coverage metrics remained comfortable due to healthy cash flows and reduction in debt. ICRA notes that the Group has recently undertaken a large capex of Rs. 203 crore, partly funded by term loans of Rs. 120 crore and balance from its own accruals. Additionally, the Group will be eligible to receive capital subsidy of Rs. 54.2 crore towards this capex in a phased manner over the next four years. The fresh capex would support an increase in the Group's revenue and an improvement in its profitability. Moreover, stable realisations in FY2024 and a pick-up in demand from Q4 FY2024 onwards, would result in relatively better performance in FY2024 and a noticeable improvement in FY2025. Going forward, ICRA expects that the Group's credit profile would continue to remain comfortable with low gearing, comfortable liquidity and debt coverage indicators. The liquidity of the Group continues to draw comfort from the capital subsidy received/receivable against investments made towards its manufacturing units in Maharashtra.

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) and fluctuations in forex rates. Also, any downward revision in the financial incentives may adversely impact the profit margins. ICRA notes that the Group has undertaken a fresh capex for purchase of latest machinery in the denim fabric segment, which witnessed a slowdown in demand in the past few years. ICRA believes that any sharp decline in denim realisations or demand would adversely impact the Group's profitability. While the capital structure and coverage indicators would remain comfortable at present, any major unanticipated capex in the future, funded largely by fresh debt, could strain the capital structure and hence, would remain a key credit monitorable. ICRA notes that on a standalone basis, the company is likely to report losses, though not significant, mostly due to large inventory losses during the year because of heavy flood at one of its facilities. However, the loss would be primarily offset by the likely insurance claim. Any delay or inability to receive the expected claim could impact the Group's liquidity to that extent. Nevertheless, the Group's comfortable financial profile at the consolidated level would continue to provide required support.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group is likely to sustain its operating metrics even with some volatility in its revenue and profitability. Further, the outlook underlines ICRA's expectation that the Group's incremental capex, if any, to further expand/strengthen its capacities will be funded in a manner that is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the textile industry – Owned by 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, 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 60,225 MTPA, denim capacity to ~108.6 MMPA and terry towel capacity to ~25,630 MTPA. In October 2015, the Group incorporated Sudarshan Auto Industries Private Limited, which manufactures tyres under its own brand. The manufacturing plants of the Group are situated at Rajpura (Punjab), Kolhapur (Maharashtra), Indapur (Maharashtra) and Amravati (Maharashtra).

Established relationship with the customers – The Group has an established network of distributors spread across the northern, central and eastern parts of India. Over the years, the Group has developed a strong client base in the domestic and export markets of the US, which has been providing repeat business.

Integrated nature of operations and diversified revenue streams – The denim fabric and towel plants of the Group are backward integrated with in-house spinning capability, which caters to ~50.0% of the captive demand of raw materials. 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 FY2023, the cotton yarn segment contributed around 33% to the revenue, followed by the towel segment at 32% and the denim segment at 26%.

Comfortable financial risk profile – The overall business performance in FY2023 was in line with ICRA's estimates, as reflected in net cash accruals of Rs. 78.7 crore during the year. While the scale and profitability of the Group moderated in FY2023 on account of a correction in realisations and demand slowdown, debt coverage metrics remained comfortable due to healthy cash flows and reduction in debt. The profitability and scale are expected to improve in FY2024 on account of stable realisations in FY2024 and pick-up in demand from Q4 FY2024. ICRA notes that the Group has recently undertaken a large capex of Rs. 203 crore partly funded by term loans of Rs. 120 crore and capital subsidy receivable of Rs. 54.2 crore in a phased manner over the next four years. ICRA expects that the Group's credit profile would continue to remain comfortable with low gearing, comfortable liquidity and debt coverage indicators. The liquidity of the Group continues to draw comfort from the capital subsidy received/receivable against investments made towards its manufacturing units located in Maharashtra.

Credit challenges

Exposed to demand slowdown in the key export markets – There was a moderation in the Group's revenue and profitability in FY2023 due to demand slowdown in terry towel and spinning divisions owing to rising inflationary concerns, the resultant slowdown in consumer discretionary spending and uncertainty over economic growth outlook. Nonetheless, adequate cash accruals in comparison to annual repayment obligation of the long-term debt provides comfort to the overall financials of the Group, including debt coverage indicators and liquidity, going forward.

Vulnerability of profitability to volatility in cotton yarn prices and fluctuations in forex rates – The Group manufactures cotton yarn, denim fabric and towels. Cotton constitutes the 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), which result in volatile profitability. As exports account for around 20% of the Group's turnover, the Group remains exposed to the foreign currency fluctuation risks due to the unhedged exposure.

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 situation. 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. Nevertheless, ICRA notes that the Group has increased its dependence on denim in FY2024 through modernisation of machinery for catering to the branded segment where demand has increased in the recent years with higher profit margins, which provide comfort to an extent.

Vulnerability of profitability to changes in export incentive structure – 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.

Environmental and Social Risks

Environmental considerations: The Group is heavily exposed to climate-change risks given that the supply of its key input, cotton, is a water-intensive crop responsible for soil degradation, which has adverse implications from the sustainability perspective of a critical natural resource. Also, the textile industry pollutes air and water through various activities like usage of pesticides and activities like dyeing, bleaching etc. While these environmental factors naturally pose supply-side risks, the demand side risks are largely protected, given cotton's large applicability as a natural fibre in the textile sector. From the long-term perspective, however, the focus on growing organic cotton that needs less water could partially mitigate the environmental risks that the Group remains exposed to. While the Group faces these risks, the adverse effects are partially mitigated as the Group treats one million litre water everyday with 0% discharge. Both its terry towel and denim units are ISO 9001:2015 certified.

Social considerations: In general, exposure of textile-based entities to social risks is not material. As textile units are labour intensive, the key source of social risk is how human capital aspects are managed. Over the years, the Group has demonstrated a track record of managing its labour requirements well, both in terms of their sufficiency as well as their safety and overall well-being. Shortage of skilled workers or protests/conflicts with local communities could also affect the operations/growth plan and remains a key concern.

Liquidity position: Adequate

The Group's liquidity is adequate, supported by its healthy cash flow from operations worth Rs. 64.8 crore in FY2023. As per ICRA's estimates, the company's cash accruals are likely to remain healthy in FY2024. The Group's healthy free cash flows and limited capital expenditure plans in the near term would continue to provide comfort to the company's liquidity and operations. The utilisation of fund-based working capital limits remained low at an average of 25% during the past 12 months ending in December 2023. As on January 31, 2024, the Group had a subsidy receivable of around Rs. 92.5 crore against the long-term debt of ~Rs. 143.0 crore with a scheduled repayment of ~Rs. 44.8 crore in FY2025, which are expected to be serviced comfortably through internal accruals and the subsidy amount.

Rating Sensitivities

Positive factors – ICRA could upgrade the ratings if the Group demonstrates a significant improvement in scale, profitability and liquidity while maintaining comfortable debt coverage metrics on a sustained basis.

Negative factors – Pressure on the Group's ratings could arise if there is a sharp decline in revenue and profitability as well as weakening in its liquidity position on a sustained basis. Any unanticipated large debt-funded capex that may put pressure on the cash flow or Total debt/OPBDITA above 1.8 times, on a sustained basis, could result in ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Textiles (Fabric Making) Textiles (Spinning)
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of the three entities in the Sudarshan Group, given the strong operational, financial and managerial linkages within these entities. The details have been given in Annexure II.

About the Group

Owned by Punjab-based Mr. Sudarshan Paul Bansal and his family, the Sudarshan Group comprises Partap Industries Limited (PIL), Sudarshan Jeans Private Limited and Sudarshan Auto Industries Private Limited. Mr. Bansal, along with his family members, holds a 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 manufacture cotton yarn, denim fabric and towels. Further, PIL holds a 99.5% equity stake in SAIPL, which manufactures rubber tyres under its own brand and on a job-work basis.

About the company

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 FY2012, 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. In FY2024, the company has installed a new denim fabric manufacturing facility of 12.7 MMPA at the Amravati unit.

Key financial indicators (audited)

	PIL^		Consolidated	
	FY2022	FY2023	FY2022	FY2023
Operating income	455.3	439.9	1,236.2	1,024.3
PAT	27.6	14.7	98.1	34.9
OPBDIT/OI	13.2%	7.4%	16.1%	8.9%
PAT/OI	6.1%	3.3%	7.9%	3.4%
Total outside liabilities/Tangible net worth (times)	0.7	0.5	0.5	0.4
Total debt/OPBDIT (times)	1.4	2.0	0.7	1.2
Interest coverage (times)	15.6	13.7	14.3	19.6

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and Amortisation; Amount in Rs. crore; ^Includes Sudarshan Auto Industries Private Limited

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date and Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
					Feb 28, 2024	Nov 17, 2022	Oct 7, 2021	Jul 5, 2021	-
1	Working capital limit – Cash Credit	Long-term	15.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-
2	Term Loans	Long-term	21.64	21.64	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-
3	Unallocated	Long-term	-	-	-	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-
4	Bank Guarantee	Long-term/ Short-term	-	-	-	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2	-
5	Unallocated	Long-term/ Short-term	11.86	NA	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Working capital limit – Cash Credit	Simple
Long-term fund-based – Term Loan	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 are available on ICRA's website: Click Here

Annexure-I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working capital limit – Cash Credit	NA	NA	NA	15.00	[ICRA]A(Stable)
NA	Term Loans	FY2019	NA	FY2025/FY2026	21.64	[ICRA]A(Stable)
NA	Unallocated	NA	NA	NA	11.86	[ICRA]A (Stable)/ [ICRA]A2+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-II: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Partap Industries Limited (PIL)	100.00%	Full Consolidation
Sudarshan Auto Industries Private Limited (SAIPL)	99.50%	Full Consolidation
Sudarshan Jeans Private Limited (SJPL)	40.32%	Full Consolidation

Source: *Company; 100% stake in PIL held by the promoters. PIL holds a 40.32% stake in SJPL, rest held directly by the promoters. PIL holds a 99.5% stake in SAIPL, The rest is held directly by the promoters*

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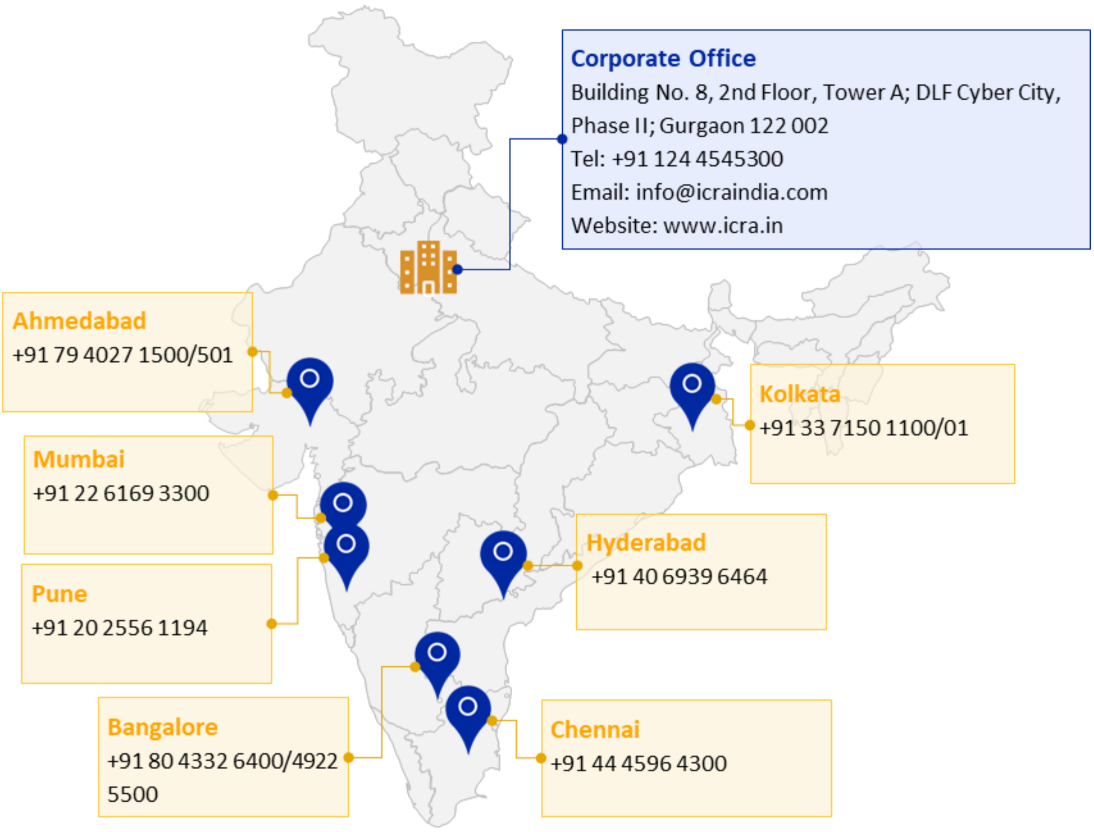

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