

Satia Synthetics Limited: Assigned

| Name of the Instruments | Amount (Rs. Crore) | Rating/Outlook |
|-------------------------|--------------------|---------------------------|
| Cash Credit I | 26.00 | SMERA B/Stable (Assigned) |
| Cash Credit II | 10.00 | SMERA B/Stable (Assigned) |
| Cash Credit III | 28.00 | SMERA B/Stable (Assigned) |
| Cash Credit IV | 16.00 | SMERA B/Stable (Assigned) |
| Cash Credit V | 10.00 | SMERA B/Stable (Assigned) |
| Term Loan I | 18.00 | SMERA B/Stable (Assigned) |
| Term Loan II | 2.03 | SMERA B/Stable (Assigned) |
| Term Loan III | 2.59 | SMERA B/Stable (Assigned) |
| Letter of Credit I | 3.70 | SMERA A4 (Assigned) |
| Bank Guarantee | 1.50 | SMERA A4 (Assigned) |
| Letter of Credit II | 6.15 | SMERA A4 (Assigned) |
| Letter of Credit III | 7.15 | SMERA A4 (Assigned) |

SMERA has assigned rating of '**SMERA B' (read as SMERA B)** to the Rs.112.62 crore long term (fund based) and '**SMERA A4' (read as SMERA A four)** to the Rs.18.50 crore short term (non-fund based) bank facilities of Satia Synthetics Limited (SSL). The outlook is '**Stable**'. The ratings are constrained by the working capital intensive business and weak financial risk profile. The ratings also factor in the company's low PAT margins and intense competition in the cotton yarn industry. However, the aforementioned weaknesses are partially offset by the experienced management and established relations with customers and suppliers.

Since SSL manufactures cotton yarn of 20s, 25s, 30s and 34s counts, its operations are working capital intensive evident from the gross current assets (GCA) of 243 days in FY2014-15 against 227 days during the previous year. SMERA believes that over the medium term, the operations will continue to remain capital intensive considering its diversified product profile. The company maintains inventory for five to six months to meet consumer demand. The financial risk profile is weak marked by leverage (debt-equity ratio) of 2.03 times in FY2014-15 against 1.95 times in FY2013-14. The interest coverage ratio was modest at 1.2 times in FY2014-15 against 1.32 times in FY2013-14 (refers to financial year, April 01 to March 31) and net cash accruals to total debt (NCA/TD) stood at 0.04 times in FY2014-15 against 0.04 times during the previous year.

SSL faces intense competition from several players in the cotton yarn industry. The company's increasing reliance on borrowed funds has led to cash outflow in interest and finance cost, weakening low profit after tax (PAT) margins to 0.13 per cent in FY2014-15 against 0.41 per cent during the previous year. SMERA believes that over the medium term, the situation will remain the same in order to support routine operations.

However, the company benefits from its experienced management. Mr. Anil Satia, Director, has around 40 years of experience in the cotton yarn industry.

Outlook- Stable

SMERA believes that SSL will continue to benefit over the medium term from its experienced management and long-standing relations with customers and suppliers. The outlook may be revised to 'Positive' in case of improvement in the capital structure or shortening of working capital cycle. Conversely, the outlook may be revised to 'Negative', in case of deterioration in the profitability margins or if the company registers lower than expected cash accruals. Further, any large debt funded capex undertaken that adversely impacts the financial risk profile may also entail a 'Negative' outlook.

Rating Sensitivity Factors

- Efficient working capital management
- Substantial and sustainable improvement in revenue and profitability profile
- Debt funded capex

Criteria applied to arrive at the ratings:

- Manufacturing Entities

About the Company

The Punjab-based, SSL, a joint venture between Mr Anil Satia (57 per cent) and Punjab State Industrial Development Corporation (28 per cent) was incorporated in 1992. The company commenced commercial operations in 1997 to manufacture cotton yarn of 20s, 25s, 30s and 34s counts. It has interest bearing unsecured loan worth Rs.7 crore from promoters, friends and relatives that are subordinated to bank debt. SMERA has treated such unsecured loans as quasi-equity.

For FY2014-15, the company reported profit after tax (PAT) of Rs.0.33 crore on operating income of Rs.256.75 crore, as compared with profit after tax (PAT) of Rs.1.08 crore on operating income of Rs.265.54 crore in FY2013-14. As per the nine months provisional financials for 2015-16, the company booked revenue of Rs.172.56 crore. The net worth of the company stood at Rs.54.23 crore as on March 31, 2015 against Rs.55.42 crore a year earlier.

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ABOUT SMERA

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