

### Sangeet Syntex Limited: Assigned

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	5.50	SMERA BB/Stable (Assigned)
Term Loan I	0.44	SMERA BB/Stable (Assigned)
Term Loan II	0.58	SMERA BB/Stable (Assigned)
Term Loan III	7.65	SMERA BB/Stable (Assigned)
Performance Guarantee	0.50	SMERA A4+ (Assigned)
Proposed Fund Based Facilities	4.09	SMERA BB/Stable (Assigned)

SMERA has assigned long term rating of '**SMERA BB**' (**read as SMERA double B**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs.18.76 crore bank facilities of Sangeet Syntex Limited (SSL). The outlook is '**Stable**'.

The ratings derive comfort from the experienced management, average financial risk profile and improvement in operating margins. However, the ratings are constrained by the moderate scale of business, working capital intensive operations and the competitive and fragmented textile industry. Further, the margins are expected to remain susceptible to fluctuations in raw material prices.

SSL, incorporated in 1980 is a Mumbai-based company engaged in the manufacture of polyester texturised yarn and knitted fabric. The company benefits from its experienced management. Mr. Rahul Modi, Managing Director, has around two decades of experience in the textile industry. SSL has recently completed its expansion project in June 2016 which included transfer of manufacturing facilities as well as capacity enhancement. The operating margin of the company improved from 6.74 per cent in FY2013-14 to 7.13 per cent in FY2014-15. Further, as per provisional financials for FY2015-16, operating margins have improved to 8.20 per cent in FY2015-16.

SSL's average financial risk profile is marked by gearing of 1.17 times as on March 31, 2016 (1.19 times as on March 31, 2015). The management of the company has been infusing funds in the business by way of equity as well as unsecured loans. The interest coverage ratio improved from 2.24 times in FY2014-15 to 3.00 times in FY2015-16. The DSCR continues to remain moderate and debt repayment is expected to be supported by enhanced cash accruals from enhanced capacity as well as timely infusion of funds by the management.

SSL has moderate scale of operations. The same has shown a declining trend from Rs.29.10 crore in FY2013-14 to Rs.25.00 crore in FY2015-16 (provisional) on account of volatility in crude prices leading to declining sales realisations. The operations of the company are working capital intensive with working capital cycle of 85 - 90 days. The average month end utilisation of the working capital limits is around 90 per cent for six months ended May 2016.

SSL faces stiff competition due to the competitive and fragmented nature of the textile industry. The margins are susceptible to movement in raw material prices of polyester yarn as it is linked to crude prices.

#### Rating Sensitivity Factors

- Efficient working capital management
- Scaling up of operations while improving operating margins
- Generating adequate net cash accruals for debt repayment

## Outlook-Stable

SMERA believes that SSL will maintain a stable outlook over the medium term owing to the promoters' vast experience in the textile industry. The outlook may be revised to 'Positive' if the company registers substantial increase in scale of operations while achieving better profit margins. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve the projected scalability in revenues amidst intensifying competition in its area of operation or deterioration in the financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

### Criteria applied to arrive at the ratings:

- Manufacturing entities

### About the Company

SSL, incorporated in 1980, is engaged in the manufacture of knitted fabrics and polyester textured yarn (PTY) at Silvassa. The company has an installed capacity of 2,520 metric tonnes per annum (MTPA) for texturising yarn and 2,820 MTPA for knitted fabrics.

For FY2014–15, SSL reported profit after tax (PAT) of Rs.0.21 crore on net operating income of Rs.27.34 crore, as compared with PAT of Rs.0.32 crore on operating income of Rs 29.10 crore in the previous financial year. For FY2016 (provisional), SSL reported profit after tax (PAT) of Rs.0.53 crore on net operating income of Rs.25.00 crore.

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### ABOUT SMERA

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