

## Press Release

**Sona Synthetics**

March 26, 2019



**Rating Assigned**

<b>Total Bank Facilities Rated*</b>	Rs. 6.00 Cr.
<b>Long Term Rating</b>	ACUITE B / Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) to the Rs. 6.00 crore bank facilities of Sona Synthetics (Sona). The outlook is '**Stable**'.

Established in 1999, the firm has Mr. Hiteshree Shailesh Shah, Dhruv Shailesh Shah and Jiten Nathalal Shah as partners. The partnership firm is engaged in the processing of yarn into synthetic fabric. Out of their entire produce, 75 per cent is sold as processed yarn and 25 per cent is made into cloth/fabric. Out of the fabric that is sold, 50 per cent is plain and 50 per cent is printed. Their suppliers include domestic traders and their customers include wholesalers which sell the fabric for manufacturing shirts. Their monthly capacity is around 100 metric tonnes per month of which they are currently utilising 50 percent.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of Sona to arrive at this rating.

### Key Rating Drivers

#### Strengths

- **Experienced management**

The firm is engaged in the processing of yarn into fabrics which are used for manufacturing of shirts. The firm was incorporated in 1999, yet the promoters have been in the business of fabrics for more than four decades. The firm is promoted by Mr. Hiteshree Shailesh Shah who is supported by second line of management, Mr. Dhruv Shah. The extensive experience of the management has led to established market presence, enabling it to build strong ties with customers and suppliers. Acuité believes that Sona will continue to benefit from the extensive experience of the management.

#### Weaknesses

- **Below average financial risk profile**

The financial risk profile is weak marked by high gearing (debt-equity) and total outside liabilities to total net worth (TOL/TNW). The gearing stood at 3.45 times as on 31 March, 2018 as against 3.61 times on 31 March, 2017. TOL/TNW stood high at 5.50 times as on 31 March, 2018. The total debt of Rs.20.74 crore includes short term debt of Rs. 6.01 crore, unsecured loan of Rs.14.42 crore and term loan outstanding of Rs.0.31 crore as on 31 March, 2018. The net worth stood moderate at Rs.6.00 crore as on March 2018. Low net worth and high working capital requirement are expected to keep gearing levels high over the near to medium term. Debt protection metrics also stood below average with interest coverage ratio (ICR) at 1.45 times as on March, 2018 and low net cash accruals to total debt (NCA/TD) of 0.03 times in FY2018. Acuité believes that maintaining a stable financial risk profile will be crucial for overall sustainability.

- **Working capital intensive scale of operations**

The firm has working capital intensive nature of operations marked by Gross Current Assets (GCA) of 707 days for FY2018 as against 649 days for FY2017. The deterioration in GCA is mainly due to a significant increase in inventory days to 624 days for FY2018 from 579 days in FY2017. Further, the working capital utilisation for Sona stood at 100 percent for the last six months ending January 2019. Acuité believes that efficient working capital management will be crucial for the firm in

order to maintain a stable credit profile.

#### **Liquidity Position**

Sona has its liquidity position marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 0.63 crore for FY2018, while maturing debt obligations were around Rs. 0.10 crore over the same period. The cash accruals of the company are estimated in the range of Rs. 0.70 – 0.80 crore over the medium term, against which its repayment obligations are estimated to be in the range of Rs. 1.52 – 2.01 crore. The current ratio of the company is healthy at 1.94 times as on March 31, 2018. Acuité believes that the liquidity of the group is likely to remain moderate over the medium term on account of moderate cash accruals vis-à-vis its future debt obligations.

#### **Outlook: Stable**

Acuité believes that the outlook of Sona will remain 'Stable' over the medium term on account of the experience of the promoters in the fabric industry. The outlook may be revised to 'Positive' in case the firm registers significant growth in its revenue and profitability while maintaining a healthy financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital cycle or financial risk profile.

#### **About the Rated Entity - Key Financials**

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	18.33	18.36	38.62
EBITDA	Rs. Cr.	2.01	2.90	3.79
PAT	Rs. Cr.	0.04	0.07	0.58
EBITDA Margin	(%)	10.95	15.78	9.81
PAT Margin	(%)	0.22	0.40	1.51
ROCE	(%)	5.70	9.21	25.66
Total Debt/Tangible Net Worth	Times	3.45	3.61	2.00
PBDIT/Interest	Times	1.45	1.42	1.65
Total Debt/PBDIT	Times	10.30	6.29	3.94
Gross Current Assets (Days)	Days	707	649	305

#### **Status of non-cooperation with previous CRA (if applicable)**

CRISIL, vide its press release dated December 17, 2018 had denoted the rating of Sona Synthetics as 'CRISIL B/Stable; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

#### **Any other information**

None

#### **Applicable Criteria**

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

#### **Note on complexity levels of the rated instrument**

<https://www.acuite.in/criteria-complexity-levels.htm>

#### **Rating History (Upto last three years)**

Not Applicable

#### **\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE B / Stable

## Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>	Varsha Bist Manager - Rating Desk Tel: 022-67141160 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Karan Patil Analyst - Rating Operations Tel: 022-49294074 <a href="mailto:karan.patil@acuiteratings.in">karan.patil@acuiteratings.in</a>	

### About Acuité Ratings & Research:

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