



Press Release

Sree Durga Fibre Products Private Limited

February 23, 2023

Rating

| Facility | Amount (Rs. Crore) | Rating | Rating Action | Complexity Indicator |
|-------------------------------|---|--|---------------|--|
| Long-Term Bank Facilities | 28.50 (Reduced from Rs.31.05 crore) | IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook) | Reaffirmed | Simple |
| Short-Term Bank Facilities | 6.50 (Enhanced from Rs.1.00 crore) | IVR A2 (IVR A Two) | Reaffirmed | Simple |
| Total | 35.00 (INR Thirty-five crore only) | | | |

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of S D Polytech Pvt Ltd (SDPPL) continues to consider the close operational and financial linkages between SDPPL and its group company, Sree Durga Fibre Products Pvt Ltd (SDFPL). Infomerics has taken a combined view of these entities referred together as Sree Durga group.

The reaffirmation of the rating assigned to the bank facilities of S D Polytech Private Limited (SDPPL) continues to derive comfort from its established track record and longstanding experience of its promoters, its diversified product range in thermoware products and strong presence in the market. Further the rating also considers, improvement in scale of operation of the group in FY22 with improvement in profitability, comfortable capital structure of the group coupled with its healthy debt protection metrics. However, these rating strengths continues to remain partially offset by its exposure to intense competition, susceptibility of profitability to fluctuations in raw material prices and government regulations coupled with the risk associated with the ongoing capex for capacity expansion.

Key Rating Sensitivities:

Upward factors

- Substantial and sustained growth in operating income, operating margin and cash accrual.
- Improvement in working capital management leading to improvement in liquidity



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- Improvement in capital structure and/or improvement in debt protection metrics with overall gearing below 0.50x.

Downward Factors

- Moderation in operating income and cash accrual impacting the debt protection metrics on a sustained basis.
- Stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure weakens the financial risk profile, particularly liquidity.
- Deterioration in overall gearing to over 1.5x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record and longstanding experience of the promoters**

Sree Durga group has an established operational track record in the textile and thermoware industry. Over the years, the company had established healthy relationship with its customers and suppliers. The overall affairs of the group are managed by Mr. Sunil Jain and Mr. Surendra Kumar Agarwal, having experience of around three decades. Both together looks after the overall functioning of the group.

- **Diversified product range in thermoware products and strong presence in market**

Sree Durga group sells its premium disposable thermoware under “Kohinoor” and “Kohinoor Plus” brands and the economy disposable thermoware under “Double Diamond” brand through its flagship company SDFPL. Most of the sales are made in North India, primarily in Uttar Pradesh and Uttarakhand. It has a stronger presence in Uttar Pradesh. The group commands a premium for its thermoware products as SDFPL is among the top manufacturers in this segment and provides high quality products. Further, the group enhanced its product profile with addition of cotton, polyester yarns through SDPPL.

- **Rise in scale of operation in FY22 with improvement in profitability**

In FY22, the topline has grown significantly to Rs.421.99 crore after registering a y-o-y growth of ~63%. The growth in topline is mainly driven by increased sales volume coupled with higher average sales realization of its product profile. Driven by improved revenue, the absolute EBITDA has increased from Rs.27.82 crore in FY21 to Rs.59.04 crore in FY22. Consecutively, both EBITDA margin and PAT margin has improved from 10.92% and 6.33% respectively in FY21 to 13.99% and 8.31% respectively in FY22. Moreover, GCA has



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improved from Rs.22.46 crore in FY21 to Rs.41.86 crore in FY22. During 8MFY23, the group has already achieved a topline of Rs.251.91 crore with marginal moderation in profitability.

- **Comfortable capital structure and debt protection metrics**

The group has a comfortable capital structure on the back of its satisfactory net worth base of Rs.118.23 crore as on March 31, 2022. The long-term debt to equity and the overall gearing ratio has improved and remained satisfactory at 0.53x and 0.79x respectively (0.66x and 1.01x respectively as on March 31, 2021) as on March 31, 2022. The overall indebtedness of the group marked by TOL/TNW has also improved remained comfortable at 1.13x as on March 31, 2022 (1.24x as on March 31, 2021). Backed by improved absolute EBITDA and marginally reduced finance cost, the debt protection matrices marked but interest coverage ratio has improved to 11.11x in FY22 against 3.79x in FY21. Further, with rise in EBITDA and gross cash accruals both Total Debt to EBITDA and Total debt to GCA has improved to 1.59x and 2.24 years respectively as on March 31, 2022, against 3.02x and 3.74 years as on March 31, 2021

Key Rating Weaknesses:

- **Intense competition**

The cotton yarn industry is highly commoditized. The high degree of fragmentation and commoditized nature has caused intense competition among cotton processing units. Entry barriers in cotton processing business are low on account of limited capital and technology requirements and low differentiation in end product. This leads to intense competition and limits players' pricing power, resulting in low profitability. Since raw cotton is an agricultural commodity, its availability is limited and primarily depends on the monsoon.

- **Susceptibility of profitability to fluctuations in raw material prices and Government Regulations**

The primary raw material for manufacturing of disposable thermoware is general purpose polystyrene, the price of which has remained volatile over the years. Since raw material consumption constitutes a significant portion of the total cost of production, any increase in prices would adversely impact the profitability, given the time lag in revision of prices of the final product. Raw jute is the only raw material required for the manufacturing of jute products. The company procures jute from local suppliers in West Bengal. Jute is available in abundance as West Bengal is the largest cultivator of jute in India, but its availability also depends on a combination of factors like government policies, and the prevailing demand-



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supply scenario etc. The jute stocking season is mainly from September-March and thus the year-end raw jute inventory remains on the higher side. Similarly, the margins from cotton yarn segment is highly susceptible to changes in the prices of cotton. The price of cotton is fixed by the government through the Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with suppliers as well. Any adverse movement of cotton prices further impacts profitability.

- **Ongoing capex**

S D Poly Tech Private limited is going for an expansion project with 6000 spindles open end and 1000 rotors with production capacity of 8084 MT PA at existing manufacturing unit at Uttarakhand. The Capex is in the initial stage as it started in December 2022 and expected to be completed by March 2024. In view of initial stage of capex execution, there exists project execution risk.

Analytical Approach: Combined

For arriving at the rating, Infomerics has combined the financial risk profiles of S D Polytech Pvt Ltd and Sree Durga Fibre Products Pvt Ltd as these entities run under a common management, have strong operational and financial linkages and cash flow fungibility. Further, both these entities are in manufacturing of yarn. Further, Sree Durga Fibres Products Pvt Ltd has provided an undertaking to infuse funds in S D Polytech Pvt Ltd whenever required to meet its interest and loan repayment obligations in case of any shortfall. Both the companies' combined together referred as Sree Durga group hereafter.

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

Liquidity: Adequate

The group had generated healthy cash accrual of around Rs.41.86 Cr in FY22 and it is expected to be in the range of Rs.33 crore to Rs.51 crore as against its repayment obligation ranging from Rs.3.50 crore to Rs.9.74 crore during FY23-FY25. Moreover, the group has adequate gearing headroom on the back of its strong capital structure. Further, both SDPPL and SDFPPL have adequate buffer in their respective cash credit limits.

About the Company



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Sree Durga Fibre Products Private Limited (SDFPL) was initially established as a proprietorship firm in 1995. Later it was reconstituted as a partnership firm in 2003 and gradually converted into a private company in 2007. The promoters of SDFPL are, Mr. Sunil Jain, Mr. Surendra Kumar Agarwal and Mr. Rabi Shankar Ghosh. The company started its 5 operation with manufacturing of jute products like jute yarn, ban and ropes at its manufacturing facility located at Gopal Nagar, West Bengal with a total capacity of 7200 MTPA which has improved to 15600 MT. SDFPL ventured into manufacturing of disposable thermoware with its facility located at Rudrapur, Uttarakhand. Currently, the capacity of the thermoware division is 4,800 MTPA. In order to diversify the group's operations, the promoters acquired an existing spinning mill in SIIDCUL Industrial Area, Sitarganj, previously owned by Innovative Textile Limited through slump sale and started its operations under SD Polytech Private Limited (SDPPL) from January 2019.

Financials of Sree Durga Group (Combined):

(Rs. crore)

| For the year ended* / As On | 31-03-2021 | 31-03-2022 |
|-----------------------------|----------------|----------------|
| | Audited | Audited |
| Total Operating Income | 254.67 | 421.99 |
| EBITDA | 27.82 | 59.04 |
| PAT | 16.41 | 35.17 |
| Total Debt | 83.90 | 93.84 |
| Tangible Net worth | 83.38 | 118.23 |
| EBITDA Margin (%) | 10.92 | 13.99 |
| PAT Margin (%) | 6.33 | 8.31 |
| Overall Gearing Ratio (x) | 1.01 | 0.79 |
| Interest Coverage Ratio (x) | 3.79 | 11.11 |

*Classification as per Infomerics' standards.

Financials of Sree Durga Fibre Products Private Limited (Standalone):

(Rs. crore)

| For the year ended* / As On | 31-03-2021 | 31-03-2022 |
|-----------------------------|----------------|----------------|
| | Audited | Audited |
| Total Operating Income | 85.43 | 132.74 |
| EBITDA | 8.42 | 14.07 |
| PAT | 8.29 | 8.22 |
| Total Debt | 10.48 | 19.14 |
| Tangible Net worth | 42.43 | 50.34 |
| EBITDA Margin (%) | 9.86 | 10.60 |



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| | | |
|-----------------------------|-------|-------|
| PAT Margin (%) | 9.23 | 6.16 |
| Overall Gearing Ratio (x) | 0.25 | 0.38 |
| Interest Coverage Ratio (x) | 17.54 | 14.23 |

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

(Rs. Crore)

| Sr. No. | Name of Instrument/Facilities | Current Rating (Year 2022-23) | | | Rating History for the past 3 years | | | | |
|---------|-------------------------------|-------------------------------|------------------------------|------------------|---|---|---|---|---|
| | | Type | Amount outstanding (Rs. Cr.) | Rating | Date(s) & Rating(s) assigned in 2021-22 | Date(s) & Rating(s) assigned in 2021-22 | Date(s) & Rating(s) assigned in 2020-21 | Date(s) & Rating(s) assigned in 2020-21 | Date(s) & Rating(s) assigned in 2020-21 |
| 1. | Term Loan | Long | 8.50 | IVR BBB+; Stable | IVR BBB+; Stable (March 1, 2022) | IVR BBB; Positive (Sep 28, 2021) | IVR BBB; Stable (Dec 01, 2020) | IVR BBB; Stable (Sep 24, 2020) | IVR BBB; Stable (Sep 11, 2020) |
| 2. | Cash Credit | Long Term | 20.00 | IVR BBB+; Stable | IVR BBB+; Stable (March 1, 2022) | IVR BBB; Positive (Sep 28, 2021) | IVR BBB; Stable (Dec 01, 2020) | IVR BBB; Stable (Sep 11, 2020) | IVR BBB; Stable (Sep 11, 2020) |
| 3. | Bank Guarantee | Short Term | 1.00 | IVR A2 | IVR A2 | IVR A3+ (Sep 28, 2021) | IVR A3+ (Dec 01, 2020) | IVR A3+ (Sep 11, 2020) | IVR A3+ (Sep 11, 2020) |
| 4. | Bank Guarantee (Proposed) | Short Term | 0.50 | IVR A2 | - | - | - | - | - |
| 5. | Letter of Credit (Proposed) | Short Term | 5.00 | IVR A2 | - | - | - | - | - |



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| Sr . No. | Name of Instrument/ Facilities | Current Rating (Year 2022-23) | | | Rating History for the past 3 years | | | | |
|-------------|-----------------------------------|-------------------------------|------------------------------|--------|---|---|---|---|---|
| | | Type | Amount outstanding (Rs. Cr.) | Rating | Date(s) & Rating(s) assigned in 2021-22 | Date(s) & Rating(s) assigned in 2021-22 | Date(s) & Rating(s) assigned in 2020-21 | Date(s) & Rating(s) assigned in 2020-21 | Date(s) & Rating(s) assigned in 2020-21 |
| | sed) | | | | | | | | |

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| | |
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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

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Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Cr) | Rating Assigned/ Outlook |
|--|------------------|------------------|---------------|---------------------------|--------------------------|
| Long Term Fund Based Limits – Term Loan | - | - | March 2029 | 8.50 | IVR BBB+; Stable |
| Long Term Fund Based Limits – Cash Credit | - | - | - | 20.00 | IVR BBB+; Stable |
| Short Term Non-Fund Based Limits – Bank Guarantee | - | - | - | 1.00 | IVR A2 |
| Short Term Non-Fund Based Limits – Bank Guarantee-Proposed | - | - | - | 0.50 | IVR A2 |
| Short Term Non-Fund Based Limits – Letter of credit-Proposed | - | - | - | 5.00 | IVR A2 |

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-SreeDurga-feb23.pdf>

Annexure 3: List of companies considered for consolidated analysis:

| Name of the Company | Consolidation Approach |
|---|------------------------|
| S D Polytech Private Limited | Full Consolidation |
| Sree Durga Fibre Products Private Limited | Full Consolidation |

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.