



## Press Release

### **Sree Durga Fibre Products Pvt Ltd**

**May 31, 2024**

#### **Ratings**

Facility	Amount (Rs. Crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long-Term Bank Facilities	29.17 (Reduced from Rs. 30.49 crore)	IVR BBB; Stable (IVR Triple B with Stable Outlook)	Downgraded from IVR BBB+/Stable (Triple B Plus with Stable outlook)	Simple
Short-Term Bank Facilities	6.50	IVR A3+ (IVR A Three Plus)	Downgraded from IVR A2	Simple
Long-Term/Short Term Bank Facilities (Proposed)	1.32	IVR BBB; Stable/ IVR A3+ (IVR Triple B with Stable Outlook, IVR A Three Plus)	Assigned	Simple
<b>Total</b>	<b>36.99 (INR Thirty-six crore and ninety nine lakh only)</b>			

**Details of Facilities are in Annexure 1**

#### **Detailed Rationale**

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

The downgrade in the ratings assigned to the bank facilities of SDFPPL is driven by moderation in the business performance of the group marked by dip in profitability in FY23 and expected further moderation in profitability in FY24 as per estimates. The business performance of SDPPL was impacted owing to dip in cotton prices which affected the textile industry globally. The ratings also consider the rise in exposure of SDFPPL in its other group companies leading to impairment in the capital structure of the group coupled with moderation in debt protection metrics. However, the ratings continue to derive comfort from established track record of the group under experienced promoters, diversified product range in thermoware products and strong presence in the market. These rating strengths continues to remain partially offset by exposure to intense competition, susceptibility of profitability to fluctuations in raw material prices and exposure to government regulations.



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### **Key Rating Sensitivities:**

#### **Upward factors**

- Substantial and sustained growth in operating income, operating margin and cash accrual of SDPPL leading to improvement in the business performance of Sree Durga group
- Improvement in capital structure and/or improvement in debt protection metrics with improvement in overall gearing to below 1.5x and improvement in interest coverage ratio to above 3x
- Improvement in working capital management with improvement in liquidity

#### **Downward Factors**

- Moderation in operating income and/or moderation in 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 any debt funded unplanned capital expenditure weakens the financial risk profile, particularly liquidity.
- Any unplanned rise in exposure to other group entities
- Deterioration in overall gearing to over 2x and interest coverage to below 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



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manufacturers in this segment and provides high quality products. Further, the group enhanced its product profile with addition of cotton, polyester yarns through SDPPL.

### **Key Rating Weaknesses:**

- **Moderation in business performance**

SDFPPL's standalone topline has improved to Rs.147.50 crore in FY23 from Rs.132.74 crore in FY22 thereby maintaining a steady operating margin of 9.49% in FY23. However, owing to higher depreciation and finance cost, PAT margin has moderated to 3.23% in FY23 against 6.16% of FY22. However, the total operating income and profitability of SDFPPL is expected to moderate as per FY24 estimates. Moreover, attributed to dip in scale of operation in SDPPL, absolute EBITDA of the Sree Durga group has moderated to Rs.19.58 crore in FY23 against Rs.59.04 crore in FY22. Owing to moderation in absolute EBITDA coupled with lower absorption of fixed overheads on account of dip in capacity utilisation, the operating margin has also witnessed a step correction to 5.35% in FY23 in comparison to 13.99% in FY22. The group's topline and profitability is estimated to decline further in FY24.

- **Moderation in financial profile marked by impairment in capital structure with moderation in debt protection metrics**

Driven by the increase in exposure in group companies, the adjusted overall gearing and TOL/ATNW of SDFPPL has moderated to 1.73x and 3.54x respectively as on March 31, 2023 from 0.49x and 0.69x respectively as on March 31, 2022. However, the capital structure is expected to improve in FY25 on the back of gradual payment of term loans and accretion of profit to reserve. On the other hand, the adjusted overall gearing ratio of the Sree Durga group moderated to 1.20x as on March 31, 2023, against 0.88x as on March 31, 2022 due to elevated debt level. The overall indebtedness of the group marked by TOL/ATNW has also moderated to 1.77x as on March 31, 2023 (1.25x as on March 31, 2022). The capital structure of the group is expected to moderate further in FY24 due to addition of fresh term loan of ~Rs.27 crore availed for the ongoing capacity enhancement capex in SDPPL. Moreover, owing to dip in absolute EBITDA coupled with increase in finance cost the interest coverage ratio has also moderated to 2.34x in FY23 against 11.11x in FY22. Further, Total Debt to EBITDA and Total debt to NCA has also declined to 5.28x and 9.45 years respectively as on March 31, 2023. The debt protection metrics are estimated to moderate further in FY24.

- **Exposure to other group entities**



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SDFPL has investment in multiple group companies amounting to Rs.35.09 crore as on March 31,2023. Exposure to other group entities restricts the financial profile of the Sree Durga group.

- **Exposure to 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. However, its availability also depends on a combination of factors like government policies, and the prevailing demand-supply scenario etc. 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.

**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, SDFPL has provided an undertaking to infuse funds in SDPPL 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. The lists of companies considered for consolidation are given in **Annexure 3**.

**Applicable Criteria:**



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[Rating Methodology for Manufacturing Companies](#)

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

[Criteria of assigning rating outlook](#)

[Policy on Default Recognition](#)

[Consolidation of Companies](#)

[Criteria on complexity](#)

### **Liquidity: Adequate**

The liquidity of the group is expected to remain adequate in the near term. The group is expected to achieve gross cash accruals in the range of ~Rs.20-38 crore which would be sufficient against its scheduled debt repayment obligations in the range of ~Rs.11.50-15 crore during the FY25-FY27. Moreover, the group has moderate gearing headroom in view of its moderate capital structure. Furthermore, the average utilisation of working capital limit stood at ~84% during the past 12 months ended March 2024 indicating moderate liquidity buffer.

### **About the company**

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 operations with manufacturing of jute products like jute yarn, ban and ropes at its manufacturing facility located at Gopal Nagar, West Bengal. 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.

### **About SD Polytech Private Limited**

SD Polytech Private Limited (SDDPL) was incorporated in December 2014 to diversify the operations of the group into manmade yarn and fibre manufacturing. During FY19, the management of Sree Durga Group acquired an existing spinning mill in SIIDCUL Industrial Area, Sitarganj, previously owned by Innovative Textile Limited. The unit can produce cotton yarn, polyester yarn as well as polyester cotton yarn with state-of-the-art machines. The Sitarganj plant was acquired through slump sale comprising of 43,440 spindles and 12 knitting machines as the unit possess world's top textile equipment's. The unit of SDPPL commenced commercial operations from January 2019 and currently manufactures cotton yarn, polyester yarn, cotton and polyester blend yarn and fabrics.





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### Financials of Sree Durga Group (Combined):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	<b>Combined</b>	<b>Combined</b>
Total Operating Income	421.99	366.13
EBITDA	59.04	19.58
PAT	35.17	3.45
Total Debt	93.84	103.47
Tangible Net worth (Adjusted)	106.69	85.96
EBITDA Margin (%)	13.99	5.35
PAT Margin (%)	8.31	0.94
Overall Gearing Ratio (x) (Adjusted)	0.88	1.20
Interest Coverage Ratio (x)	11.11	2.34

\*Classification as per Infomerics' standards.

### Financials of Sree Durga Fibre Products Pvt Ltd (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	132.74	147.50
EBITDA	14.07	14.00
PAT	8.22	4.78
Total Debt	19.14	33.82
Tangible Net worth (Adjusted)	38.80	19.55
EBITDA Margin (%)	10.60	9.49
PAT Margin (%)	6.16	3.23
Overall Gearing Ratio (x)	0.49	1.73
Interest Coverage Ratio (x)	14.23	3.26

\*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 2024-25)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23 (Mar 31, 2023)	Date(s) & Rating(s) assigned in 2022-23 (Feb 23, 2023)	Date(s) & Rating(s) assigned in 2021-22 (Mar 01, 2022)



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23 (Mar 31, 2023)	Date(s) & Rating(s) assigned in 2022-23 (Feb 23, 2023)	Date(s) & Rating(s) assigned in 2021-22 (Mar 01, 2022)
1.	Term Loan	Long Term	6.27	IVR BBB; Stable	-	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable
3.	GECL	Long Term	2.90	IVR BBB; Stable	-	IVR BBB+; Stable	IVR BBB+; Stable	-
4.	Cash Credit	Long Term	20.00	IVR BBB; Stable	-	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable
5.	Letter of Credit	Short Term	5.00	IVR A3+	-	IVR A2	IVR A2	-
6.	Bank Guarantee	Short Term	1.50	IVR A3+	-	IVR A2	IVR A2	IVR A2
7.	Proposed	Long Term/Short Term	1.32	IVR BBB; Stable/IVR A3+	-	-	-	-

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### About Infomerics Ratings:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.



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Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary. For more information visit [www.infomerics.com](http://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	-	-	Mar 2029	6.27	IVR BBB; Stable
Long Term Fund Based Limits – GECL	-	-	Feb 2027	2.90	IVR BBB; Stable
Long Term Fund Based Limits – Cash Credit	-	-	-	20.00	IVR BBB; Stable
Short Term Non Fund Based Limits – Letter of Credit	-	-	-	5.00	IVR A3+
Short Term Non Fund Based Limits – Bank Guarantee	-	-	-	1.50	IVR A3+
Long Term/ Short Term-Proposed	-	-	-	1.32	IVR BBB; Stable/ IVR A3+

### Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-SreeDurgaFibre-may24.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





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**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](http://www.infomerics.com).

