sutlej
textiles and industries limited

SUTLEJ TEXTILES AND
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CIN No. : L17124RJ2005PLC020927

14th March, 2022

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001. **Scrip Code: 532782**	**National Stock Exchange of India Ltd.** Exchange Plaza, 5th Floor, Plot No. C/1, G-Block, Bandra-Kurla Complex, Bandra (E), Mumbai 400 051. **Scrip Code : SUTLEJTEX**

Dear Sirs,

Sub: Intimation of Credit Rating under the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015, we wish to inform you that India Ratings and Research (Ind-Ra) has assigned "Long Term Issuer Rating of **IND A+**" and "Commercial Paper (CP) rating of **IND A1+**" to the Company.

The instrument wise rating actions are as follows:

Instrument Type	Rating / Outlook
Term Loan	IND A+ / Stable
Fund-based working capital limits	IND A+ / Stable / IND A1+
Non-fund-based working capital limits	IND A+ / Stable / IND A1+
Commercial Paper (CP)*	IND A1+

*To be carved out of working capital limits

This is for the information of the members and exchanges.

Thanking you

Yours faithfully
For **Sutlej Textiles and Industries Limited**

Contractor

Manoj Contractor
Company Secretary and Compliance Officer

SUTLEJ TEXTILES AND INDUSTRIES LTD.

India Ratings Assigns Sutlej Textiles and Industries 'IND A+'/Stable & its CP 'IND A1+'

India Ratings and Research (Ind-Ra) has assigned Sutlej Textiles and Industries Limited (Sutlej) a Long-Term Issuer Rating of 'IND A+'. The Outlook is Stable. The instrument wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan	-	-	January 2029	INR5,551.8	IND A+/Stable	Assigned
Fund-based working capital limits*	-	-	-	INR6,000	IND A+/Stable/IND A1+	Assigned
Non-fund-based working capital limits	-	-	-	INR425	IND A+/Stable/IND A1+	Assigned
Commercial paper (CP)#	-	-	7-365 days	INR3,000	IND A1+	Assigned

*Overall ceiling of INR6,000 million under Multiple Banking Arrangement

#To be carved out of working capital limits

The ratings reflect Sutlej's established position in India's value-added spun-dyed yarn industry and strong clientele. The rating is further supported by an improvement in profitability on account of an improvement in the gross margin, supported by an increase in realisations as well as structural changes in costs by way of rationalising the manpower and energy costs, and reduced dependency on outside suppliers for its polyester staple fibre (PSF) requirement. The ratings are also supported by the company' adequate liquidity position and an improvement in the credit metrics in 1HFY22. However, the ratings are constrained by the company's loss-making Home Textile division, exposure to volatility in raw material prices and inherent textile industry risks.

KEY RATING DRIVERS

Strong Business Profile: Sutlej holds a leading position in India's value-added spun-dyed yarn industry, which has limited players in the dyed and melange yarn segment in the organised sector, due to moderate-to-high entry barriers. The company has over five decades of operating track record, leading to established relationships with its customers and suppliers. This ensures uninterrupted product availability from key suppliers and repeat orders from reputed customers including some of the large brands across the globe. The ratings are also supported by Sutlej's geographical diversification across domestic and export markets, product diversification across value-added yarns, four plant locations and recently commissioned Sutlej Green Fibre plant. Exports accounted for 40% of the revenue in 1HFY22 (FY21: 34%, FY20: 30%). Sutlej has a diversified customer base with its top 10 customers accounting for around 22% of the total revenue in FY21, reflecting low-to-moderate concentration risk.

Improving Profitability: The EBITDA margins rebounded to 12% in 1HFY22, after declining to 5.5% in FY21 (FY20: 7.1%) as against an EBITDA loss of INR110 million in 1HFY21 amid COVID-19-led business disruptions. The yarn division (contributing around 95% to the total revenue) EBITDA margin improved to 14.5% in 9MFY22 (FY21: 9%) on account of higher realisations, whereas the home textile division continued to incur losses. Although Ind-Ra expects the overall EBITDA margins to normalise gradually from 1QFY23 as the input costs on raw materials firm up, structural measures help sustain margins at 11%-13%. The company is focusing on rationalising manpower and optimising costs in key cost components. The company has also been upgrading its plant & machinery, and optimising its power consumption, thus reducing the overall costs.

Sutlej has set up a recycled PSF plant which produces PSF by recycling polyethylene terephthalate (PET) bottles, which meets over 70% of the internal PSF requirement. This helps in improvising the mix of controllable costs as well as customer requirements.

Home Textiles Division Expected to Turnaround: Management is focusing to turnaround its home textile division and has guided the segment to turn profitable in FY23. The agency assumes the increase in the utilisation, higher sales through retail distributors and improving demand for home furnishing will aid the company to post positive EBITDA in FY23. In 2021, Sutlej consolidated the entire home textile division including American Silk Mills acquired in 2017 and also appointed a new business head for the same. It plans to reach to 250 multi brand retail outlets in the next six months and increase its offering.

Sector Tailwinds: The agency expects the unleashing of the pent-up demand for textile products will continue in FY23 from both domestic and export markets. Moreover, global retailer and brands looking for supply chain diversification reducing dependency on China, will likely provide opportunity for Indian textile players, especially in the organised market. Cotton yarns segment is likely to generate strong margin on the back of global shortage in supply unless there is a resolution on Chinese Xinjiang cotton issue. With the production-linked incentive scheme in place, additional capacities are likely to come up, especially for man-made fibre-based fabrics and garments, which may increase supply in the domestic market, and could lead to higher demand for Sutlej's yarns in the medium term. Furthermore, substitution risk is high in the textile industry. A decline in demand for and the production of cotton yarn benefit the synthetic yarn segment. Against the average global blending of cotton and synthetics of 40:60, India's cotton blending stands at 65%, indicating a considerable scope for substitution of cotton with synthetic yarn. India's signing of free trade agreement with Australia, the UK and the UAE will also improvise the sector's export potential.

Liquidity Indicator – Adequate: Sutlej's average utilisation of the sanctioned fund-based limits excluding bill discounting facilities was around 63% for the 12 months ended February 2022, providing sufficient liquidity cushion despite low free cash balances (1HFYE22: INR168 million, FYE21: INR108 million, FYE20: INR102 million). The company's cash flow from operations (FY21: INR619 million, FY20: INR2,870 million) remained positive over FY18-FY21. The company's gross working capital cycle elongated to 133 days in FY21 (FY20: 103 days) on account of an increase in the inventory holding period to 103 days (84 days), and receivable period to 53 days (40 days). Ind-Ra expects Sutlej's liquidity to remain adequate in FY22, considering the low use of the fund-based limit and moderate capex plans. The debt service coverage ratio is likely to remain comfortable with around INR1,313 million and INR1,304 million of principal repayment obligations in FY22 and FY23, respectively.

Moderate Credit Metrics: Sutlej's moderate credit metrics can be attributed to consistent gross debt levels amid no major capex, supported by low utilisation of the fund-based facilities. The net adjusted leverage ((gross debt-free cash)/EBITDA; gross debt includes accepted letters of credit (LC)) was 2.46x in 1HFY22 (FY21: 8.63x, FY20: 5.02x), while the interest coverage (EBITDA/(gross interest + rent)) was 7.0x (2.76x, 3.77x). The credit metrics improved due to an increase in the absolute EBITDA on the back of recovering demand in the textile sector, leading to higher realisations and sales volumes after a major setback in FY21 due to the Covid-19-led disruptions. With no major debt-led capex plans, the net adjusted leverage is likely to remain below 3.0x in the medium term.

Forex Risks: Sutlej's exports comprised around 34% of the total revenue in FY21 while import of raw materials were minimal. Thus, being a net exporter, Sutlej's margins are exposed to forex risk. However, as a practice, the company fully hedges its forex exposure, reducing the risk to a large extent. Ind-Ra believes Sutlej will remain exposed to forex risks, but efficient hedging practices, are likely to aid in minimising the losses.

Inherent Industry Risks: The Indian textile industry is highly fragmented due to the low entry barriers, particularly in greige yarn segment. Moreover, domestic demand faced significant disruptions due to the COVID-19 outbreak over 1QFY21, and amid the pandemic, employee/labour health and safety risks have been accentuated. Furthermore, the domestic industry's price dynamics depend significantly on the developments in China, the largest manufacturer and exporter in the global textile industry. Sutlej faces fluctuating operating margins due to volatile raw material prices which include cotton, polyester, viscose, among others. The raw material cost as a percentage of revenue was about 56% in FY21 (FY20: about 56%). The supplier concentration on PSF and viscose, the key raw materials is high leading to low bargaining power with spinners. As the company's key end-industry (fabrics) is based on consumer discretion, it faces high price elasticity of demand. However, Sutlej with diversified exposure to cotton and blended yarn is less affected than pure cotton yarn spinners, since synthetic fibre prices are less volatile than raw cotton prices.

RATING SENSITIVITIES

Positive: An improvement in the business profile leading to a turnaround in the home textiles segment to generate profits, a higher mix of value-added products leading to a substantial improvement in the operating profitability and the net adjusted leverage reducing below 1.75x, all on a sustained basis, could result in a positive rating action.

Negative: Any major debt-led capex, lower-than-expected revenue and/or operating EBITDA margins and/or a further elongation of the working capital cycle, leading to the interest coverage reducing below 4.0x and/or the net adjusted leverage increasing above 2.75x, all on a sustained basis, will lead to a negative rating action.

RATING CRITERIA

'Corporate Rating Methodology' dated 20 April 2020, and 'Short-Term Ratings Criteria for Non-Financial Corporates' dated 20 April 2020 are available at www.indiaratings.co.in.

COMPANY PROFILE

Sutlej manufactures synthetic, natural, and blended yarns and home furnishing textiles such as curtains and made ups. It was created as a result of a corporate restructuring exercise in 2005; the textiles divisions of Sutlej Industries Ltd. and Damanganga Processors Ltd. were demerged and combined to operate as Sutlej. It is part of the multi-product conglomerate KK Birla Group.

It processes one of the largest product portfolios of spun dyed yarn and cotton blended dyed and mélange yarns. Sutlej has an annual spinning capacity of 420,407 spindles and home textile capacity of 9.6 million metres. Its manufacturing facilities are located at Bhawanimandi (Rajasthan), Baddi (Himachal Pradesh) and Kathau (Jammu & Kashmir), while the home textile fabric division is at Daheli (Gujarat), and Green Fibre unit at Baddi (Himachal Pradesh).

FINANCIAL SUMMARY

Particulars	1HFY22	FY21	FY20
Revenue (INR million)	13,728	18,840	24,167
EBITDA (INR million)	1,673	1,043	1,721
Interest coverage (x)	7.0	2.8	3.8
Net adjusted leverage (x)	2.5	8.6	5.0
Source: Sutlej, Ind-Ra			

COMPLEXITY LEVEL OF THE INSTRUMENTS

Instrument Type	Complexity Indicator
Term loan	Low
Fund-based limits	Low
Non-fund-based limits	Low
CP	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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