IPO Note

December 18, 2024

Sanathan Textiles Limited

Issue Snapshot:
Issue Open: December 19 – December 23, 2024

Price Band: Rs. 305 –321

*Issue Size: Up to Rs. 550.0 cr (Fresh issue of up to Rs 400.0 cr + Offer for sale of up to Rs 150.cr)

Reservation for:

QIB	upto	50% eq sh
Non-Institutional	atleast	15% eq sh
((including 1/3rd for applications between Rs.2 lakhs to Rs.10 lakhs))		
Retail	atleast	35% eq sh

Face Value: Rs 10

Book value: Rs 184.16 (June 30, 2024)

Bid size: - 46 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs.	71.9 cr
*Post issue Equity:	Rs.	84.4 cr

Listing: BSE & NSE

Book Running Lead Managers: DAM Capital Advisors Limited, ICICI Securities Limited

Sponsor Bank: HDFC Bank Ltd & ICICI Bank Ltd

Registrar to issue: KFin Technologies Limited

Shareholding Pattern

Shareholding Pattern	**Pre issue %**	**Post issue %**
Promoter and Promoter Group	100.0	79.83
Public	0.00	20.17
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Sanathan Textiles Limited (STL) is one of the few companies (amongst its peer group) in India with presence across the polyester, cotton and technical textile (which find application in multiple end-use segments including automotive, healthcare, construction, sports and outdoor, and protective clothing) sectors and based on its operating income, it had a market share of 1.7% in the overall Indian textile yarn industry as of Fiscal 2024. Currently, all the three yarn verticals are housed under a single corporate entity. This has facilitated its diversification into new segments which in turn has helped it in serving a large number of customers across various sectors. As on September 30, 2024, STL has more than 3,200 active varieties of yarn products (i.e. yarn products manufactured by it during the period April 1, 2021 to September 30, 2024) and more than 45,000 stock keeping units (SKUs), and capability to manufacture a diversified product portfolio of more than 14,000 varieties of yarn products and more than 190,000 SKUs that are used in various forms and for varied end uses.

STL also has a high share of value-added products such as dope dyed, superfine / micro, functional, industrial and technical yarn, cationic dyeable and specialty yarn which are produced after extensive in-house research. These value added products are tailor-made to customer requirements and has properties and characteristics which are distinctive from its other products. Its business is divided into three separate yarn business verticals, consisting of: (a) Polyester yarn products; (b) Cotton yarn products; and (c) Yarns for technical textiles and industrial uses. Over the years, STL has scaled up its production and as on June 30, 2024, its facility at Silvassa had a total installed capacity of 223,750 MTPA across the three yarn verticals. While it manufactures products across all verticals, polyester yarn products continue to be its largest item of production. The Company manufactures polyester chips using purified terephthalic acid (PTA) and mono ethylene glycol (MEG) and convert the chips into polyester yarn through various intermediate processing to impart specific properties to the yarn.

STL has, over the years, established long-standing relationship with consumer brands such as Welspun India Limited, Valson Industries Limited, G.M. Fabrics Private Limited, Premco Global Limited, Creative Garments Textile Mills Private Limited, Banswara Syntex Limited, AYM Syntex Limited, Techno Sportswear Private Limited, Haren Textiles Private Limited, Khosla Profil Private Limited, Tulip Elastics Private Limited, Ganesha Ecosphere Limited, Udyogi International Private Limited, Page Industries Limited, D'Décor Home Fabrics Private Limited, Siyaram Silk Mills Limited, Duvalli S.A., G.M. Syntex Private Limited, Maruti Rub -Plast Private Limited, Geosys India Infrastructures Limited, Wildcraft India Limited, SRF Limited, RSWM Limited, Sangam (India) Limited, Ateliers Reunis De Filature, Abhay Trading Company and Ascent Yarns Private Limited. During June 30, 2024, Fiscal 2024 and Fiscal 2023, STL catered to 983, 1,571 and 1,684 customers, respectively. While revenue from domestic sales is the largest component of its revenue from operations, a significant portion of its revenues also emanate from exports. Further, during June 30, 2024, Fiscal 2024, and Fiscal 2023, the Company exported its products to 14, 27 and 29 countries, respectively. As on June 30, 2024, STL had more than 925 distributors in 7 countries comprising India, Argentina, Singapore, Germany, Greece, Canada and Israel. On January 2, 2024, it was accorded the status of a 'Three Star Export House'.

STL is an environmentally conscious Company, and it encourage the use of renewable resources. The Company has also recently entered into an agreement with third party for purchase of electricity from a solar power generating station and has also entered into an agreement to subscribe to shares of the vendor of the electricity. As of June 30, 2024, the had installed rooftop solar projects at its Silvassa facility with a capacity of 2.35 MW. Further, during Fiscal 2024, 0.86% of the energy consumed is derived from renewable resources, i.e. the rooftop solar projects at its Silvassa facility.

Objects of Issue:
The Offer comprises the Fresh Issue and an Offer for Sale by the Selling Shareholders.

Offer for Sale
The Offer for Sale comprises up to aggregating up to Rs. 1,500.00 million. The Company will not receive any proceeds from the Offer for Sale and the proceeds received from the Offer for Sale will not form part of the Net Proceeds. Each Selling Shareholder will be entitled to proceeds from the Offer for Sale to the extent of its respective portion of the Offered Shares, after deducting their respective proportion of Offer related expenses and relevant taxes thereon, in accordance with the Offer Agreement.

Fresh Issue
The Fresh Issue comprises an offer of up to aggregating up to Rs. 4,000.00 million.
The Company proposes to utilise the Net Proceeds towards the following objects:
- Repayment and/ or pre-payment, in full or part, of certain borrowings availed by the Company;
- Investment in subsidiary viz. Sanathan Polycot Private Limited, for repayment and/ or pre-payment, in full or part, of certain borrowings availed by the subsidiary viz. Sanathan Polycot Private Limited; and
- General corporate purposes.

In addition, STL expects to receive the benefits of listing of the Equity Shares on the Stock Exchanges and enhancement of its visibility and brand image and creation of a public market for its Equity Shares in India.

Requirement of funds and utilisation of Net Proceeds
(Rs in million)

Particulars	Amount to be funded from the Net Proceeds	Ratio to the total Gross Proceeds	Estimated deployment during Fiscal 2025	Estimated deployment during Fiscal 2026
Repayment and/ or pre-payment, in full or part, of certain borrowings availed by the Company;	1,600.00	40.00%	1,600.00	-
Investment in subsidiary viz. Sanathan Polycot Private Limited, for repayment and/ or pre-payment, in full or part, of certain borrowings availed by its subsidiary viz. Sanathan Polycot Private Limited	1,400.00	35.00%	-	1,400.00
General corporate purposes.	*	*	*	*
Total	*	*	*	*

Competitive Strengths
One of the few companies (amongst peer group) in India with presence across the polyester, cotton and technical textile sectors: STL is present across three yarn verticals, i.e. (a) Polyester yarn products; (b) Cotton yarn products; and (c) Yarns for technical textiles and industrial uses. All the three yarn verticals are, currently, housed under a single corporate entity. One of its business strengths lies in the diversity of its product range and the relatively higher share of value-added products. As of June 30, 2024 it manufactures more than 14,000 varieties of yarn products with more than 190,000 SKUs that are used in various forms and for varied end uses. It also has a high share of value-added products such as dope dyed, superfine / micro, functional, industrial and technical yarn, cationic dyeable and specialty yarn which are produced after extensive in-house research. These value added products are tailor-made to customer requirements and have properties and characteristics which are distinctive from its other products. Its diversified product portfolio allows it to scale new markets, provide its customers with broader range of options and helps caters to the disparate requirements across geographies. This helps STL in insulating itself from segmental downturns, economic upheavals in specific geographies and from uncertain events.

Focus on the product development of new products, through process innovation: STL constantly seeks to innovate and design products that are unique in colour, property, characteristics to suit specific customer requirements. It has an in-house Product Innovation and Development team that is continually focusses on developing value added products and using existing machines and infrastructure to prepare customized made to order products. Value added products and customisation of products is an integral element to ensuring longevity of customer relationships and repeat business. It offers a varied range of value added products which constitute a significant proportion of its revenues have higher margins since these are tailor-made to customer requirements and distinctive properties and characteristics. It also has a high share of value-added products such as dope dyed, superfine / micro, functional, industrial and technical yarn, cationic dyeable and specialty yarn which are produced after extensive in-house research. These value added products are tailor-made to customer requirements and have properties and characteristics which are distinctive from its other products. The efforts of STL's Product Innovation and Development team are supported by its sales teams which gives constant feedback for customer requirements and market trends. It also has an in -house sales team which interacts regularly with its customers in addition to its dealer-based sales and distribution network which focuses on order servicing and collections.

Fully integrated Yarn manufacturing plant set up at a strategic location with equipment supplied by domestic and globally renowned players: STL's products are manufactured at its facility at Silvassa which lies in western Gujarat (Operating Facility). The West Gujarat Cluster is amongst the major strategic locations for polyester yarn manufacturers in India due to availability of manufacturing facilities across supply chain of polyester segment. Presence of raw materials manufacturers, for MEG and PTA, such as Reliance industries, provides a logistical advantage for manufacturers in the location. Its facility has access to the textile markets of Gujarat and Maharashtra. The equipment in its facility has been designed and supplied by few of the domestic and globally renowned players in the yarn industry and has been designed to handle high number of SKUs so as to service made to order products as well as high value-added products. Its automatic doffing, transportation and package handling systems meet global inventory management standards, and its automated warehouse management system ensures high efficiency, less damage and better inventory management in limited space for handling a large number of SKUs. The process automation and technology help in reduction of labour dependency and brings in more efficiency. Further, the data driven decision making helps in timely management of production resulting in higher profitability.

STL has fully integrated polyester facilities with a continuous polymerization plant design with three luster and single esterification capable of spinning, texturizing, twisting, air-texturizing, etc. which offers it product flexibility. The plant is designed for handling high number of SKU's to service made to order products and high value added products. Additionally, it has acquired 80.00 acres of land in Wazirabad, Punjab, where it is in the advanced stage of commissioning a greenfield manufacturing facility (Punjab Manufacturing Facility), through Sanathan Polycot Private Limited, one of its wholly owned subsidiaries. The Punjab Manufacturing Facility will be set up solely for manufacturing polyester yarn products. The Punjab Manufacturing Facility, once completed and fully operational, is expected to increase its manufacturing capacity from 550 tonnes per day to 1,500 tonnes per day. Further, it has recently commenced cotton yarn operations at unit 3 of its Silvassa Facility through Subsidiary viz. Sanathan Polycot Private Limited with an installed capacity of 540 MTPA and it anticipates that it will commence cotton yarn operations at unit 4 of its Silvassa Facility in Fiscal 2026 which is expected to have an installed capacity of 10,950 MTPA.

Long standing association with leading consumer brands with a low customer concentration: The company maintains long-standing partnerships with numerous prominent consumer brands in the textile and related industries. Major clients include well-known names like Welspun India, Page Industries, SRF Limited, and Siyaram Silk Mills. From April 1, 2021, to June 30, 2024, STL catered to 20,066 customers out of which 983 customers were new customers. This indicates about 4.9% of their customer base consists of new acquisitions.

As is evident from the foregoing, STL has consistently had low customer concentration. Further, neither it, nor its Promoters, Directors and Promoter Group are directly or indirectly related to its customers, and consequently, STL relies on the quality of its products which is reflected in its relationship with its customers. STL has been associated with its top 10 customers for an average period of over 10 years. Its long-term association with key customers also offers significant competitive advantages such as revenue visibility, industry goodwill and also allows it to up-sell and cross-sell its diverse range of products. For quarter ended June 30, 2024, and the financial period ended March 31, 2024, it supplied to customers spanning 14 and 26 countries which mitigates geographic concentration risks. As on June 30, 2024 STL had 925 distributors in 7 countries including India which was instrumental in an effective supply-chain management and helped augment its sales across geographies. It is supported by reputed third party distributors across geographies with whom it has been associated for more than 10 years. Such relationships with third-party distributorship network have assisted STL in scaling of its business, increasing its international presence and has helped it enhance its goodwill.

Deep knowledge and understanding of optimal product assortment and strong supplier network enabling procurement at predicable and competitive pricing, leading to an overall efficient cycle: The company maintains a diversified product portfolio, leveraging its deep understanding of regional clusters to customize product assortments according to local demands and preferences. STL's procurement strategy is built on a robust network of domestic and international suppliers, strategically sourcing products from regions where they are readily available or manufactured, thereby optimizing procurement costs. They operate with a standardized procurement system based on purchase orders, which ensures flexibility in procurement at competitive prices. The facility implements an effective inventory and receivable management system, contributing to a healthy working capital cycle. Its procurement team continuously researches to identify optimal product sources, balancing both quality and price considerations, to enhance their supplier network and maintain an efficient supply and sale cycle. Additionally, the company prioritizes timely supplier payments, often securing discounts through prompt payment practices, further strengthening their supplier relationships and cost advantages.

Healthy financial performance: STL demonstrates a strong track record of financial performance, as evidenced by its operational results. For Q1 2025 (ended June 2024), the company generated revenue of Rs.7,811.28 million, while annual revenues for FY2024, FY2023, and FY2022 were Rs.29,575.04 million, Rs.33,292.13 million, and Rs.31,853.20 million respectively. The company maintained healthy EBITDA figures of Rs.764.38 million for Q1 2025 and Rs.2,265.81 million, Rs.2,595.30 million, and Rs.5,376.12 million for the previous three fiscal years. Profit after tax remained robust across all periods, with Q1 2025 at Rs.500.73 million. The company maintains a conservative financial structure with debt-to-equity ratios ranging from 0.25 to 0.49 times. Strong operating cash flows has enabled significant investments in capacity expansion and modernization at their Silvassa facility, along with product innovation initiatives. This financial stability has strengthened customer trust and enabled geographic expansion of operations.

Experienced management team with a proven track record: STL's growth is attributed to the extensive experience of its Promoters and senior management team. Promoters have a cumulative experience of approximately 160 years in the textiles industry. They possess over 48 years of experience specifically in the yarn business. Paresh Vrajlal Dattani, the Promoter and Chairman & Managing Director, has over 44 years of experience in the textiles industry. He has played a key role in enhancing relationships with various stakeholders. The collective experience of the management team has been crucial for the company's growth trajectory. Their leadership fosters operational efficiency and innovation within the organization.

Business Strategy:

Expanding manufacturing capacity: The company is strategically positioning itself to capitalize on the anticipated growth in the global yarn and textile industry, which is projected to expand at a CAGR of 2.5-3.5% from 2023 to 2027, reaching approximately USD 1,780-1,830 billion. Key drivers include increasing demand for apparel driven by the fashion industry and the rise of e-commerce platforms. The Indian textile and apparel sector is expected to grow at a CAGR of 6.0-7.0%, reaching Rs.12,500-Rs.12,700 billion by Fiscal 2028, with domestic growth slightly outpacing exports. To meet this demand, STL is advancing its operations through the establishment of a greenfield facility in Punjab, which will enhance production capacity significantly. Phase 1 is set to commence operations in Fiscal 2025, followed by Phase 2 in Fiscal 2027, ultimately increasing capacity from 550 tonnes per day to 1,500 tonnes per day. Additionally, the company has initiated cotton yarn operations at its Silvassa Facility and plans to expand further with new units. The Punjab facility will also integrate fabric weaving or knitting divisions for added value. A focus on sustainable practices is evident through the launch of its sustainable textiles business under the brand 'Sanathan Rivero', aimed at recycling plastic bottles into yarns. The strategic location of the Punjab facility near key markets will reduce transportation costs and enhance delivery efficiency, positively impacting customer satisfaction. By leveraging its experienced management team and extensive distributor network, the company aims to boost polyester yarn production and integrate downstream processes within its manufacturing facilities, ensuring it remains competitive in a rapidly evolving market landscape.

Enhance value addition in existing products and development of new products: STL's strategy focuses on delivering a comprehensive range of products at competitive prices, emphasizing "value for money" for customers. By maintaining an optimal product assortment tailored to local needs, it aims to enhance customer satisfaction and drive sales. Continuous product innovation is central to this approach, with a dedicated in-house team working on developing new products and improving existing ones to meet evolving customer preferences. This team, consisting of five members, is based in Silvassa and is responsible for creating customized, made-to-order products that cater to specific requirements. While the costs associated with product development are primarily linked to employee expenses, these costs are not easily separable from other operational expenses. STL recognizes that ongoing assessments of customer preferences will enable it to adapt its offerings effectively, thereby maximizing sales potential. By focusing on value-added products and leveraging existing infrastructure, the company is well-positioned to expand its product portfolio and appeal to a broader consumer base. This strategic emphasis on innovation and customization is expected to drive growth and enhance the company's competitive edge in the market.

Harnessing digitization and technology in production processes with a focus on energy efficiency and sustainable practices: STL operates an in-house testing facility equipped with advanced machinery, including a wrap reel machine, yarn strength tester, and color viewing booth, to ensure compliance with international industry standards. Continuous investment in specialized infrastructure and state-of-the-art equipment is a priority, as it enhances process development, product diversity, and maintains a competitive edge. By embracing technological advancements and digitization, STL has improved cohesion in planning, production, and processing. Future upgrades are expected to enhance operational efficiencies, reduce production costs, and increase energy efficiency, aligning with sustainable practices. Additionally, the automation and digitization of production processes will bolster production control and provide greater traceability and transparency, ultimately enhancing customer credibility and trust. This strategic focus on innovation and sustainability positions the company to meet evolving market demands effectively.

Industry Overview

An overview of global textiles industry

Textile is a term widely used for referring to woven fabrics, yarns and fibres made from jute, polyester, cotton, wool, etc. The textile market consists of sales of textiles by entities that produce fibre, yarn, threads, carpets, rugs, linens, fabrics, fibres, apparels and other textile items. The textile industry is based on three main principles: developing, manufacturing, and distributing various materials like yarn, fabric and clothing. Knitting, crocheting, weaving, and other methods are commonly employed to produce many types of completed and semi-finished goods in the bedding, clothing, garment, medical, and other accessory industries.

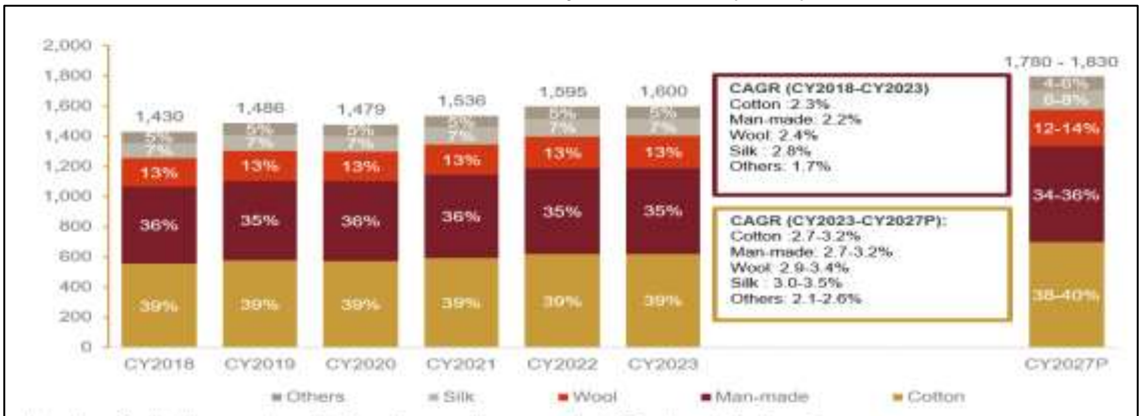
Global textile market expected to grow at 2.5-3.5% CAGR between CY2023-CY2027 in value terms

The global textile industry had grown consistently between CY2018 to CY2023, barring CY2020, which saw a decline due to Covid-19. Global trade restrictions due to disrupted supply chain and decline in textile products consumption amid imposed lockdown had negatively impacted the market resulting in a decline of ~0.5% in CY2020 compared to CY2019. However, the market recovered in CY2021, registering a Y-o-Y growth of 3.8% due to the easing of Covid-19 restrictions and release of pent-up demand. The growth continued, with global textile industry registering a Y-o-Y increase of 3.9% in CY2022 and 0.3% in CY2023. Going ahead, the industry is expected to grow at a CAGR of 2.5 - 3.5% between CY2023 to CY2027 to reach ~USD 1,780-1,830 billion in CY2027. Increasing demand for apparel from the fashion industry coupled with the growth of e-commerce platforms is expected to drive the market over the forecast period. Volume wise, the industry is expected to grow from 193 billion tons in CY2023 to 210-220 billion tons in CY2027, registering a CAGR of 2.0 - 3.0%.

Cotton is expected to remain the largest contributor of textiles industry at ~38-40% share in CY2027

From CY2018-CY2023, cotton continued to dominate the textile market, accounting for around 39% of total textile sales. The high demand for cotton can be attributed to its exceptional qualities like strength, absorbency, and colour retention. Its share is expected to remain in similar range (38-40%) in CY2027 as well. Man-made textiles had the second largest market share between CY2018-CY2023 and is expected to remain in similar range in CY2027 as well due to easy availability of raw materials, growing population and increasing demand of apparels in various textures and designs.

Global textile sales by raw material (value)



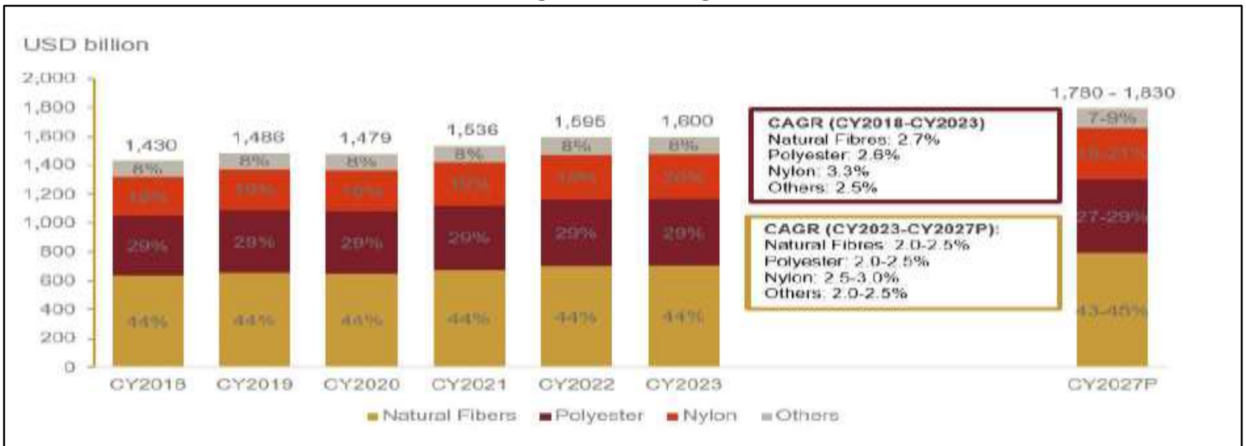
The values for % share mentioned in the above graph are rounded off to closest whole number
Source: Grandview Research, CRISIL MI&A

On volume basis also, cotton and man-made textiles had the highest share with 38% and 37% respectively between CY2018-2023. Overall, on volume basis, the industry is expected to register a CAGR of 2.0-3.0% in between CY2023-CY2027 compared to a CAGR of ~2.4% between CY2018-CY2023.

Natural fibres dominated the market with 44% share in CY2023, followed by polyester

Natural fibers dominated the textile market between CY2018-CY2023, accounting for ~44% share in value terms due to their wide range of applications in the fashion and clothing industry as well as increased environmental awareness, combined with a consumer trend toward sustainable products. Moving forward, natural fibres are expected to continue holding their dominant share. Polyester had the second highest market share between CY2018-CY2023 at 29%, owing to its various features such as high strength, chemical and wrinkle resistance, and quick drying. It is utilized in both households and industries as a cushioning and insulating material in pillows, as well as in the manufacturing of carpets, air filters, coated fabrics, and other products.

Fibre-wise segmentation of global textiles



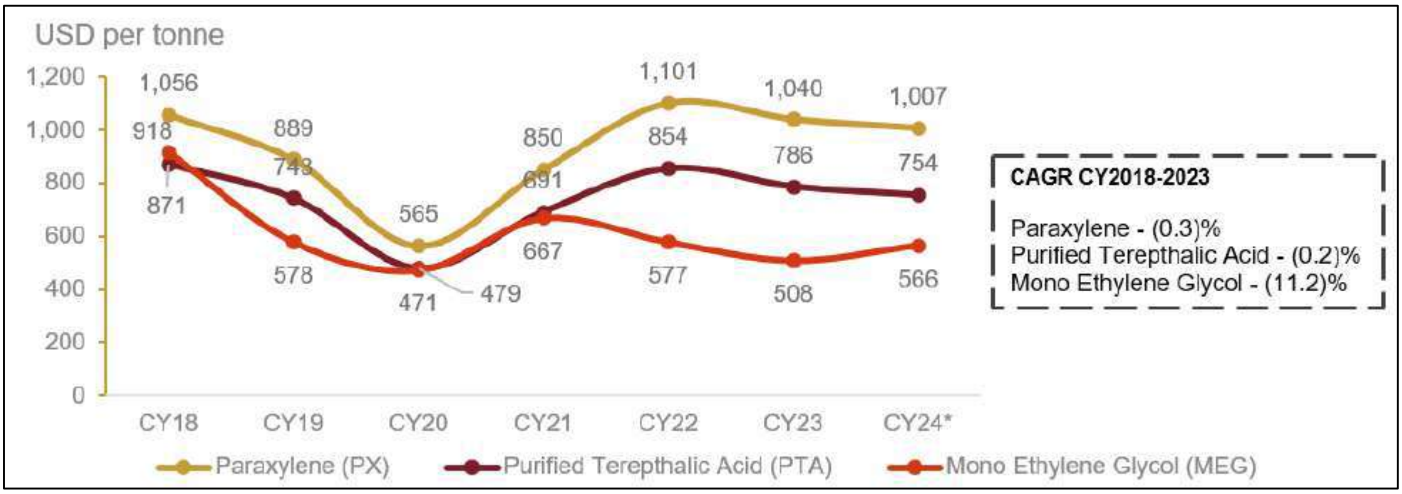
Source: Grandview Research, CRISIL MI&A

International price trends of key raw materials in textile industry

Polyester feedstock prices dip in 2023 in tandem with crude oil

Paraxylene (PX), Purified Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG) are the major raw materials used in manufacturing of Polyester Stable Fibre (PSF) and Polyester Filament Yarn (PFY). Paraxylene is the primary raw material for both PTA and MEG, while Naphtha - a crude oil derivative - acts as a significant raw material for PX. From CY2018-CY2020, the raw material prices have experienced a dip, however, post CY2020, the prices have seen a rise till CY2022 (except for MEG) aligning with the crude oil price trends. MEG witnessed a decline in CY2022, owing to the oversupply in international markets leading to a price decline of ~13%. In CY2023, all the raw materials prices declined attributed to correction in crude oil prices amidst the global economic slowdown in major economies such as United States of America (US) and European Union (EU).

Trend of polyester feedstock prices CY2018-2023



Cotton prices saw a decline in CS2023 owing to increased production

Cotton is one of the major raw materials in textile industry used for production of apparel and natural fibers. Internationally, cotton prices have seen a rise in prices at a CAGR of ~2% between CS19 and CS24 with prices estimated to be at 92 US cents per pound for CS24. The cotton prices saw an uptick of ~55% in CS2022, owing to demand revival post Covid-19 coupled with global macroeconomic tensions involving Russia – Ukraine war. Going ahead, the prices saw a dip consecutively in CS23 and CS24. The dip in CS24 can be majorly attributed to slowdown of demand in end-use segments.

Significant opportunity for India to pick up share in apparel trade Supply chain

India could serve as the preferred destination for buyers looking for alternate production base outside China due to wage increase and shortage of workers in China and also to avoid the risk of US-China trade issues. Additionally, owing to the pandemic, many countries across the globe realized the consequences of over -reliance on a single source in the manufacturing sector. In the textiles segment, global brands and retailers have started expanding their manufacturing horizon outside of China. Though the complete decoupling of China's manufacturing value chain may be a distant reality, this would act as an opportunity for India. India stands out to be an attractive option in terms of labour costs compared to China. This in conjunction with incentives provided by the Government of India, such as the PLI scheme where Government of India is providing incentives for greenfield and brownfield capacity expansion for both MMF and technical textile segments to propel exports, would prove attractive for foreign players in their path for diversification.

Opportunity in European Union (EU)

India seeking Free trade agreement (FTA) with EU, combined with the possibility that Bangladesh could lose Most-favoured-nation (MFN) status after graduating from LDC (Least developed Countries) in 2026, which could lead to an increase in exports from India to EU. India is working on getting an FTA with both the United Kingdom (UK) and European Union (EU). However, the FTA between Vietnam and the EU, which went into effect in August 2020, had strengthened Vietnam's position in the EU market and may prove to be a competitive barrier for Indian exports in the EU region.

Government incentives
New low-cost locations for textile manufacturing are emerging in India with support extended by some state governments. Besides, under the Set-up of Integrated textile parks (SITP) scheme, launched in 2005, the government is to provide the industry with state-of-the-art world-class infrastructure facilities for setting up their textile units.

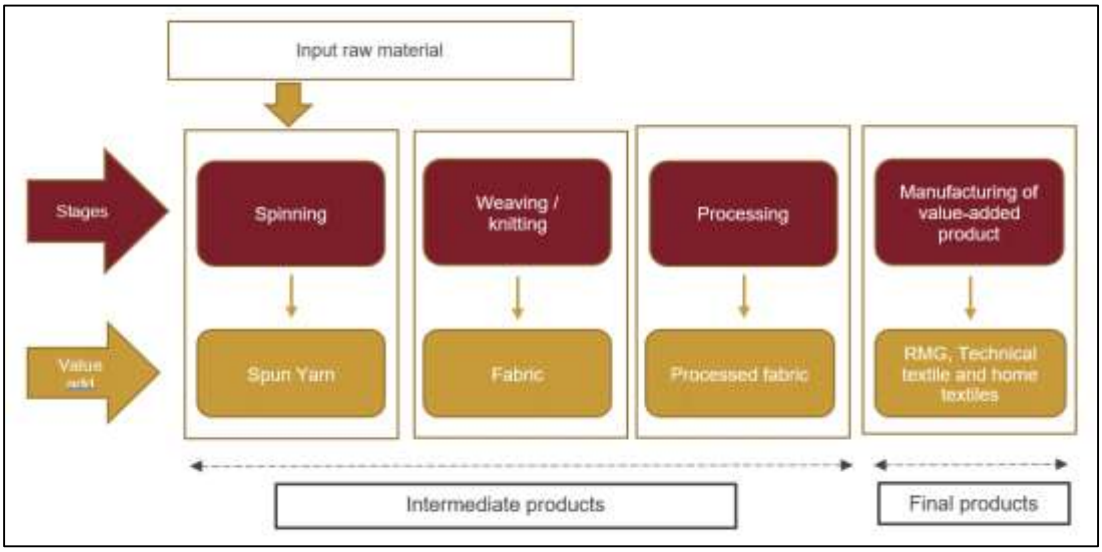
Apart from this, the schemes like Export Promotion Capital Goods Scheme, facilitate import of capital goods with duty at a concession up to zero percent and appropriate export obligations. Textiles machinery is also covered under this scheme, thereby promoting textile exports.

In February 2024, the government had also approved the continuation of Scheme for Rebate of State and Central Taxes and Levies (RoSCTL) for export of Apparel/Garments and Made-ups up to 31st March 2026, which is expected to positively impact the textile exports. Additionally, events like BHARAT TEX, which is a global textile mega event being organised by a consortium of 11 Textile Export Promotion Councils and supported by the Ministry of Textiles, are expected to increase the awareness of Indian textile sector in international space. Bharat Tex is scheduled from February 26-29, 2024, in New Delhi.

Furthermore, government had setup multiple export councils related to textiles and apparels which are expected to increase the awareness and promote Indian textiles. As of fiscal 2023, there are eleven Export Promotion Councils (EPCs) representing various segments of the textiles & apparel value chain, viz. readymade garments, cotton, silk, jute, wool, power loom, handloom, handicrafts and carpets. These Councils work in close cooperation with the Ministry of Textiles and other Ministries to promote the growth and export of their respective sectors in global markets.

Assessment of Indian textiles industry
Indian textile and apparel industry plays an important role in development of economic activity in India. As of fiscal 2023, in terms of manufacturing gross value added (GVA) at current prices, Indian textile, apparel and leather products occupy a share of 11.2% which had seen an increase from 9.0% in fiscal 2012. As per Ministry of Textile data, Indian textile and apparel including handicrafts had contributed to 8.2% of overall exports during fiscal 2024. Based on ITU export trade data, Indian textile and apparel segment occupies a share of ~3% in global textile and apparel trade as of CY2023. The key strength of Indian textile and apparel segment lies in large raw material base and manufacturing units present across the value chain. The key strength of Indian textile and apparel segment lies in large raw material base and manufacturing units present across the value chain.

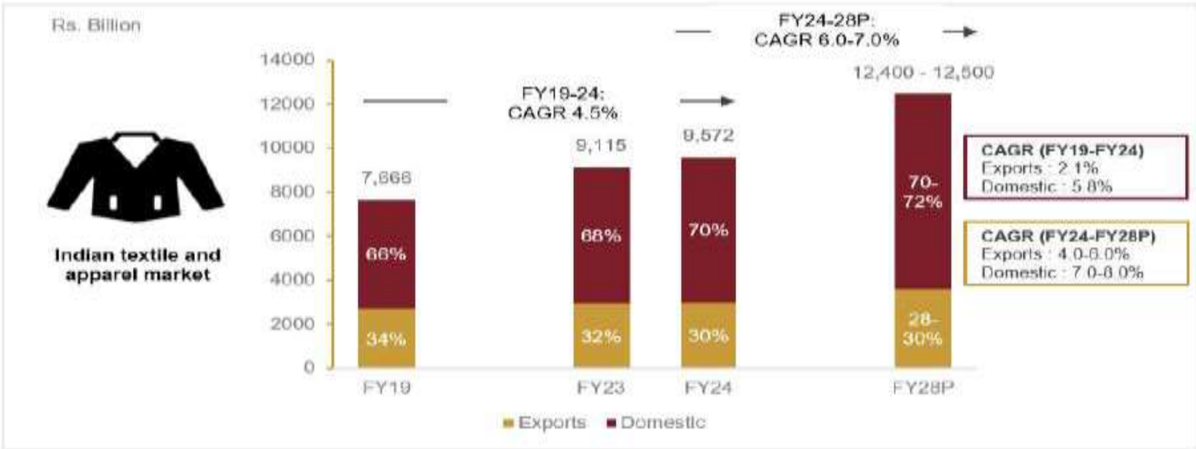
Indian textile value chain



Indian textile and apparel market projected to grow at 6-7% CAGR between fiscal 2024 and 2028
Indian textile and apparel industry is projected to grow at a CAGR of 6.0-7.0% between fiscal 2024 and fiscal 2028, reaching a value of Rs. 12,400-12,500 billion in fiscal 2028. During this period, exports are expected to grow at a CAGR of 4.5-5.5% while domestic industry is expected to grow at slightly higher pace of 7.0-8.0%. Between fiscals 2019 to fiscal 2024, the total Indian textile and apparel industry had grown at a CAGR of 4.5%. Within the total industry, the domestic Indian textile and apparel industry had grown at a higher pace of 5.8%, while exports have grown at a CAGR of 2.1%. The slower growth in exports is majorly due to decline in fiscal 2020 as a result of global slowdown which was further compounded by the Covid-19 pandemic leading to disruptions in supply chain and demand causing order cancellations. Also, high export tariffs levied on Indian exporters in countries like European Union (EU) when compared to zero import

duty for other exporting countries such as Bangladesh have further dampened the export performance. The future growth in Indian textile and apparel market will be led by various economic factors such as increase in discretionary income, rising urban population. Further, the demand is poised by increase in online retailing, shift from cotton to man-made fiber, robust growth of technical textiles segment. Additionally, global industry expanding outside of China would aid the Indian export markets in the growth trajectory.

Trend and outlook of Indian textile and apparel market



Note: Domestic Indian textile industry consists of Ready-Made garments, Unstitched Fabric, Technical textiles, and Home textiles
P stands for projected
Source: Ministry of textiles, DGCI&S, CRISIL MI&A

India's per capita consumption indicates an opportunity for growth

As of CY2022 (fiscal 2023), India's annual per capita consumption of clothing and footwear was at ~USD 79. Similarly, during CY2022, annual per capita consumption of clothing and footwear in developed economies of EU and US stood at ~USD 826 and ~USD 1,479 respectively, indicating a potential for growth in Indian textile and apparel industry.

Ready-made garments (RMG) was the largest contributor

As of fiscal 2024, domestic RMG segment contributed the highest revenue to the Indian textile and apparel market with 48%, followed by exports at 30%. Domestic technical textiles contributed 20% to the Indian textile and apparel market, while domestic home textiles completed the pie with remaining 2%. Within exports, RMG again was the largest contributor with 42% share followed by home textiles at 18%. Man-made yarn, fabrics and made ups came next with a share of 14%. Cotton yarn and technical textiles had a share of 11% and 7% respectively in Indian textile and apparel exports in fiscal 2024.

Indian textile yarn market to clock 3-4% CAGR between fiscals 2024 and 2028

The Indian textile yarn market, which was valued at Rs 1,606 billion in fiscal 2019, grew at a modest rate of ~3.0% CAGR between fiscals 2019 and 2023 to reach Rs 1,797 billion led by demand recovery after the pandemic.

Overall Indian textile yarn market

P stands for projected
Source: Ministry of Textiles, CRISIL MI&A

Growth in the long term expected to be driven by recovery in cotton yarn demand in domestic and international markets

In fiscal 2023, cotton yarn formed the major share of the Indian textile yarn market, accounting for 57% share in the market and was valued at Rs 1,030 billion. On a Y-o-Y basis, the cotton yarn market declined during fiscal 2024 by 4%, due to steep fall in yarn prices by ~25% compared to fiscal 2023. Cotton yarn market had registered a CAGR of 1.5% between fiscals 2019 and 2024 to reach Rs 960 billion in fiscal 2024 from Rs 895 billion in fiscal 2019. The cotton yarn market is expected to grow at a 4.5-5.5% CAGR between fiscals 2024 and 2028 driven by recovery in global trade. The market for manmade fibers (MMF), which includes polyester and viscose, account for ~41% of the total Indian textile yarn market in fiscal 2024. Polyester yarn market has grown at 1.0% CAGR till fiscal 2024 to reach Rs 561 billion from Rs 534 billion in fiscal 2019, while, viscose has grown at 8.1% CAGR till fiscal 2024 to reach Rs 147 billion from Rs 100 billion in fiscal 2019.

Assessment of yarn manufacturing, cotton fabric and technical textile industry in India

Yarn manufacturing consists of sequence of various processes where raw fibers are converted to yarn which can be further used in the manufacturing of various products such as fabrics and garments. The fibers are converted into yarn through a process called spinning, followed by weaving and knitting. A yarn can either be made from natural fibers such as cotton and wool or from man-made fibers (MMF) such as polyester, viscose, nylon, acrylic, polypropylene among others. Raw material consumption in the Indian textile industry is in the ratio of 59:41 for use of cotton to man-made fibers or filament yarn.

Growth drivers of Indian polyester yarn industry

Affordability compared to cotton yarn

Polyester yarn offers a cost-effective alternative to cotton, driving its adoption across various segments of the textile industry. With cotton production fluctuating over the years, leading to volatility in cotton prices prompts manufacturers preferring polyester yarn over cotton. Further, inherent properties of polyester, such as resistance to wrinkles, shrinkage, and fading, further enhance its appeal as a practical and economical option for both massmarket and premium textile products in turn aids the industry growth.

Rise in demand from end-use industries

The increasing demand for polyester yarn is driven by its versatile applications across a wide range of end-use industries. Polyester yarn's attributes such as strength, durability, and resistance, make it well -suited for technical applications such as geotextiles, automotive textiles, medical textiles, and protective clothing. The growing automotive sector, infrastructure development projects, healthcare industry, and growing emphasis on personal hygiene post covid pandemic are fueling the demand for technical textiles, this consequently drives the consumption of polyester yarn in India. In addition to this, polyester yarn usage in performance wear segments such as athleisure and sportswear is also supporting the growth.

Emergence of sustainable fashion as a trend

Sustainable fashion is emerging as one of key trends in textile and apparel industry, with consumers prioritising environmentally friendly clothing. This shift in consumer behavior will drive the growth of the polyester yarn industry in India. With the aid of technology, the production of polyester yarns can be made from recycled PET bottles. Additionally, polyester yarn can be blended with natural fibers like cotton or produced using sustainable manufacturing practices to reduce its environmental impact. This shift towards sustainability not only protects the environment but also presents a significant growth opportunity for the industry. As sustainable fashion gains momentum, driven by consumer demand, polyester yarn industry in India is poised to grow.

Indian technical textile industry is expected to grow at 11.5-12.5% CAGR between fiscals 2024-28

Indian technical textile market is spread across all the 12 segments with Packtech, Indutech, Hometech and Mobiltech comprising major chunk of the market. The industry had shown compounded annual growth of 11.2% between fiscals 2019 and 2023 to reach Rs 1,930 billion from Rs 1,262 billion. Favourable factors such as availability of raw materials and labour, and growing economy drove the growth in the past. The market had grown strongly in fiscal 2024 as well, reaching Rs 2,140-2,180 billion, thereby registering a 11-12% CAGR between fiscals 2019 and 2024. However, the demand for technical textile products is still in its nascent stages with low penetration level of technical textiles at 5-10% as of fiscal 2023, against 30-70% in advanced countries. The government, in a response to capture the potential posed by technical textiles, developed a number of policies aimed to promote the development of the domestic technical textiles market.

Key Concerns

- STL does not have long term agreements for supply of its raw materials. If it is unable to procure raw materials of the required quality and quantity, at competitive prices, its business, results of operations and financial condition may be adversely affected. Majority of its raw materials are sourced from few key suppliers. Discontinuation of operations of such suppliers may adversely affect the ability to source raw materials at a competitive price.

- If STL is unable to gauge the demand of its products accurately and are unable to maintain an optimal level of inventory, its business, results of operations and financial condition may be adversely affected.

- Relationship with distributors is critical to STL's business. During quarter ended June 30, 2024, Fiscals 2024, 2023 and 2022, 96.55% 94.48%, 93.01% and 93.31%, respectively, of its total revenue from operations was attributable to its distributors. If it is unable to maintain successful relationships with its distributors, its business, results of operations and financial condition may be adversely affected.

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- STL may not be able to successfully manage the growth of its business if it is not able to effectively implement its strategies. In particular, the proposed increase in its manufacturing capacities may not be successful or it may not have demand for its products which may be commensurate to the proposed increase of its manufacturing capacities

- The Company has a high working capital requirement and if it is unable to raise sufficient working capital the operations of its Company will be adversely affected. It is in the advanced stages of commissioning a manufacturing facility in Wazirabad, Punjab through its Subsidiary, Sanathan Polycot Private Limited. Once this Subsidiary is operational, then it will also have to arrange for further funding for additional working capital requirement.

- Revenue from operations and PAT Margin has reduced in Fiscal 2024 as compared to Fiscal 2023. If it is unable to maintain or increase revenue from operations, its profit and its profit margin, then it may have an adverse effect on the business operations and its growth strategies.

- Any losses, on account of foreign currency exchange rate fluctuations may adversely affect the business, results of operations and financial condition.

- Any under-utilization of proposed capacities may affect the ability to fully absorb fixed costs and thus may adversely impact the financial performance.

- Any delays and/or defaults in customer payments could result in increase of working capital investment and/or reduction of Company's profits, thereby affecting operation and financial condition.

- Propose to utilize a portion of the Net Proceeds for repayment and, or, pre-payment of a portion, of certain outstanding borrowings availed by the Company, and for investment in its subsidiary viz. Sanathan Polycot Private Limited, for repayment and/ or pre-payment, in full or part, of certain recently availed borrowings availed by its subsidiary viz. Sanathan Polycot Private Limited. Accordingly, the utilization of the Net Proceeds will not result in creation of any tangible assets.

- STL has incurred significant indebtedness which exposes it to various risks which may have an adverse effect on the business, results of operations and financial conditions. Conditions and restrictions imposed on it by the agreements governing its indebtedness could adversely affect its ability to operate the business.

- STL has added 136, 622, 623 and 714 new customers during quarter ended June 30, 2024, Fiscals 2024, 2023 and 2022, respectively, representing a growth of 0.99% 4.72%, 4.96% and 6.03% respectively over the prior period, with a customer retention ratio of 100% of all customers, in each of these periods. If STL is unable to attract new customers, retain customers at existing levels or sell additional products to its existing customers, its revenue growth will be adversely affected.

- Business depends on the production facility in Silvassa. Any loss of or shutdown of operations of the production facility on any grounds could adversely affect the business or results of operations
- Business and growth will depend on this facility in addition to its existing manufacturing facilities. Any loss of or shutdown of operations of this facility, once operational, could adversely affect the business or results of operations.
- Import a large portion of raw materials from international suppliers and any adverse foreign exchange fluctuation could increase its cost of operations and affect its profitability.
- Export products to various countries, on account of which STL may be subject to significant import duties or restrictions. Further, unavailability of fiscal benefits enjoyed by it or its inability to comply with related requirements may have an adverse effect on its business and results of operations.
- STL has a large work force, and its employee benefit expense and contract labour charges are one of the larger components of its fixed operating costs. An increase in employee benefit expenses and, or, contract labour charges could reduce its profitability.
- The Company has incurred significant capital expenditure in the past and will continue to incur significant capital expenditure in the future, and such expenditure may not yield the benefits it anticipates.
- STL does not have long-term agreements with a majority of its customers. Any changes or cancellations to its orders or its inability to forecast demand for products may adversely affect the business, results of operations and financial condition.
- During each of the quarter ended June 30, 2024, Fiscal 2024, Fiscal 2023 and Fiscal 2022 STL's capacity utilisation was over 100%. Over-utilisation of its production capacity may lead to breakdown, malfunction or damage to the machinery, which may impact results of operations and financial condition.
- Dependent on third party logistic and support service providers for the delivery of raw materials and finished products and any disruptions in their services including transportation services or a decrease in the quality of their services may adversely affect the business, financial condition and results of operations.
- Expansion into new product categories and a substantial increase in the number of products offered may expose STL to new challenges and more risks. Further, any inability to innovate or failure to adapt to changes in its industry may adversely affect the business, financial condition, cash flows and results of operations.
- The global scope of STL's operations exposes it to risks of doing business in foreign countries, including the constantly changing economic, regulatory, social and political conditions in the jurisdictions in which STL operates and seeks to operate, which could adversely affect the business, financial condition and results of operations.
- An inability to maintain adequate insurance cover in connection with the business may adversely affect its operations and profitability.
- Heavily dependent on technology in carrying out business activities and it forms an integral part of its business. If STL faces failure of its information technology systems, it may not be able to compete effectively which may result in lower revenue, higher costs and would adversely affect the business and results of operations.
- Business, results of operations and financial condition may be adversely affected if operations at the facilities of its raw material suppliers are disrupted. STL's business, results of operations and financial condition may also be affected if the operations of its customers are disrupted.
- Improper storage, processing and handling of raw materials and finished products may cause damage to STL's inventory leading to an adverse effect on the business, results of operations and cash flows.
- STL appoints contract labour for carrying out certain of its operations and it may be held responsible for paying the wages of such workers, if the independent contractors through whom such workers are hired default on their obligations, and such obligations could have an adverse effect on its results of operations, cash flows and financial condition. Further, there may be disruption of their services or quality issues which may affect the business, results of operations and profitability.

- STL, in the past, has rescheduled payments of its credit facilities from its lenders and has availed moratoriums for payment deferral of the re-payment of principal amount of facility availed by the Company from certain lenders.
- Any failure to obtain, renew and maintain requisite statutory and regulatory permits, licenses and approvals for STL's operations from time to time may adversely affect the business.
- The Company may need to seek additional financing in the future to support its growth strategies. Any failure to raise additional financing could have an adverse effect on the business, results of operations, financial condition and cash flows.
- Any downgrading of credit rating by a domestic or international credit rating agency may increase interest rates for future borrowings, which would increase its cost of borrowings, and adversely affect the ability to borrow on a competitive basis.
- STL's brand is integral to its success. If it fails to effectively maintain, promote and enhance its brand, its business and competitive advantage may be harmed.
- If STL's third-party service providers and key suppliers are not able to or do not fulfil their service obligations, its operations could be disrupted, and its operating results could be effected.
- Health, safety, and environmental matters, including compliance with environmental laws and remediation of contamination, could result in substantially increased capital requirements and operating costs.
- Operates in a competitive business environment. Competition from existing players and new entrants and consequent pricing pressures and its inability to compete effectively could have a material adverse effect on its operating margins, business growth and prospects, financial condition and results of operations and may lead to a lower market share.
- Business is dependent on the adequate and uninterrupted supply of electrical power at a reasonable cost. Unavailability of such adequate and uninterrupted supply of electrical power may significantly impact the business and results of operation.
- Governmental actions and changes in policy could adversely affect the Company's business.
- STL may be affected by competition law in India and any adverse application or interpretation of the Competition Act could adversely affect the Company's business.
- Financial instability, economic developments and volatility in securities markets in other countries may also cause the price of the Equity Shares to decline.
- Face foreign exchange risks that could adversely affect its results of operations.

Profit & Loss

Particulars (Rs in million)	Q1FY25	FY24	FY23	FY22
Revenue from operations	7811.3	29575.0	33292.1	31853.2
Other Income	66.3	223.0	158.1	161.4
Total Income	**7877.6**	**29798.0**	**33450.2**	**32014.6**
Total Expenditure	**7046.9**	**27309.2**	**30696.8**	**26477.1**
Cost of materials consumed	5476.2	21317.2	23349.1	20632.7
Purchases of stock-in-trade	6.3	6.4	52.3	324.7
Changes in inventories of finished goods, stock-intrade and work-in-progress	89.9	-0.7	651.5	-720.0
Employee benefits expense	239.2	906.0	885.4	947.4
Other expenses	1235.3	5080.4	5758.6	5292.3
PBIDT	**830.7**	**2488.8**	**2753.4**	**5537.5**
Interest	51.0	230.8	224.2	324.6
PBDT	**779.8**	**2258.0**	**2529.2**	**5212.9**
Depreciation and amortization	112.0	443.9	434.9	421.7
PBT	**667.7**	**1814.1**	**2094.3**	**4791.2**
Tax (incl. DT & FBT)	**167.0**	**475.6**	**566.9**	**1236.8**
Current tax	161.5	421.4	479.0	1127.1
Adjustment of tax relating to earlier periods	0.0	-8.1	4.3	26.0
Deferred tax	5.5	62.3	83.6	83.7

PAT	**500.7**	**1338.5**	**1527.4**	**3554.4**
EPS (Rs.)	7.0	18.6	21.2	49.4
Face Value	10	10	10	10
OPM (%)	9.8	7.7	7.8	16.9
PATM (%)	6.4	4.5	4.6	11.2

Balance Sheet

Particulars (Rs in million) As at	Q1FY25	FY24	FY23	FY22
Non-current assets				
Property, plant and equipment	9,238.0	9,264.7	9,483.7	8,948.7
Capital work-in-progress	3,723.1	1,405.1	188.0	23.9
Intangible assets	22.3	24.8	0.0	0.0
Intangible Assets under development	0.0	0.0	21.3	0.0
Goodwill	19.1	19.1	19.1	19.1
Financial assets				
Other financial assets	150.1	155.3	59.5	83.2
Income-tax assets (net)	0.0	0.0	44.1	35.3
Other non-current assets	2,714.4	2,074.6	1,236.0	251.3
Total non-current assets	**15,866.9**	**12,943.5**	**11,051.6**	**9,361.5**
Current assets				
Inventories	4,041.3	4,055.0	4,016.0	4,439.2
Financial assets				
Investments	1,300.0	1,069.5	475.0	548.4
Trade receivables	1,571.3	1,256.8	1,417.4	1,361.9
Cash and cash equivalents	181.9	299.3	90.2	79.3
Bank balances other than above	534.5	714.7	973.2	708.3
Other financial assets	23.1	16.0	4.4	28.5
Other current assets	1,776.3	1,682.0	1,038.9	1,437.6
Total current assets	**9,428.4**	**9,093.3**	**8,015.1**	**8,603.2**
Total assets	**25,295.3**	**22,036.8**	**19,066.7**	**17,964.7**
EQUITY & LIABILITIES				
Equity				
Equity share capital	719.4	719.4	719.4	719.4
Other equity	12,529.4	12,030.3	10,681.7	9,147.0
Total equity	**13,248.9**	**12,749.7**	**11,401.1**	**9,866.4**
Liabilities				
Non-current Liabilities				
Financial Liabilities				
Borrowings	6,072.7	3,372.0	2,216.4	2,800.2
Deferred tax liabilities (net)	780.0	775.3	712.1	629.4
Other non-current liabilities	28.1	10.1	5.4	9.3
Provisions	83.2	76.2	70.0	65.2
Total non-current liabilities	**6,964.0**	**4,233.6**	**3,004.0**	**3,504.1**
Current liabilities				
Financial liabilities				
Borrowings	376.6	426.8	593.6	981.7
Trade payables				
total outstanding dues of micro enterprises and small enterprises	104.9	127.2	147.8	60.1
total outstanding dues of creditors other than micro enterprises and small enterprises	4,216.5	4,242.2	3,625.4	3,316.1
Other financial liabilities	90.9	73.4	68.2	73.2
Provisions	28.5	27.6	25.1	28.4
Other current liabilities	161.3	149.8	201.6	74.2
Current tax liabilities (net)	103.8	6.5	0.0	60.6
Total current liabilities	**5,082.5**	**5,053.5**	**4,661.6**	**4,594.3**
Total liabilities	**12,046.4**	**9,287.1**	**7,665.6**	**8,098.3**
Total equity and liabilities	**25,295.3**	**22,036.8**	**19,066.7**	**17,964.7**

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