Strata Geosystems (India) Private Limited

February 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	123.00 (Reduced from 136.50)	CARE A; Stable	Reaffirmed
Short-term bank facilities	14.50	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Strata Geosystems (India) Private Limited (SGIPL) factors in improved performance in FY22 (refers to the period April 1 to March 31) and 9MFY23 in terms of both the top line and capital structure. The ratings continue to derive strength from the experienced promoter, strong technical support from the foreign parent, reputed clientele base, healthy order book position and comfortable structure.

However, the ratings of SGIPL are partially constrained by stretched collection period; albeit moderately working capital intensive, absence of escalation clauses in the contracts, susceptibility of margins to volatile raw material prices and foreign exchange rates.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the scale of operations to reach turnover of ₹600 crore with continued healthy order book position.
- PBILDT margin at 21% on a sustained basis.

Negative factors

- Elongation of the collection period beyond 130 days on a sustained basis.
- Moderation in the capital structure to 1.00x on account of debt-funded capex and/or increase in working capital requirements.

Analytical approach: Standalone

Key strengths

Recovery in total income from operations post COVID-19

Post COVID-19, the company has recorded 49% of revenue growth in FY22 at ₹456.37 crore (FY21: ₹306.19 crore) driven by improvement in infrastructural activities, which has led to demand for SGIPL's products. As on December 31, 2022, SGIPL has achieved total operating income (TOI) of ₹360.00 crore and last quarter of financial year being a material revenue contributor, improvement in terms of TOI is expected to continue in FY23 as well. The increasing demand for geotextiles due to its economic advantage, its attribute in resolving environmental issues such as soil erosion and its other technical characteristics are expected to further drive the performance of the company. Moreover, CARE Ratings expects incremental revenue to start from FY24 onwards from the capex completion of enhanced capacity, further aiding the improvement in TOI and its sustainability to meet the increasing demand.

Continuance of healthy profitability

Though the operating margin has declined in FY22 at 18.91% (FY21: 19.75%), it continues to remain healthy owing to its high margin orders and continuance of exports to its US joint venture (JV) partner. During FY22, the margin declined on account of increase in the raw material cost, as the key raw materials are crude derivative products. As per H1FY23, the operating margin stood at 18.19%.

Reputed clientele and comfortable order book position

The company continues to bag repetitive orders from its reputed and well-known clients, such as PNC Infratech Limited, Patel Infrastructure Limited, Montecarlo Limited, KNR Constructions Limited, etc. The outstanding orders from service segment as on December 31, 2022, stood at ₹536.00 crore and is expected to be executed in the near to mid-term. As on March 31, 2022, the sale from services segment contributed around 38% towards the total revenue, and the rest is that from product segment, the order of which is on continuous basis. Further comfort is derived from diversified order book. The order book as well as product are diversified in nature. The order book comprises projects related to the construction of reinforced soil walls, slope protection work, geocell wall, etc.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Comfortable capital structure and coverage indicators
The capital structure continues to remain comfortable below unity at 0.46x in FY22 (FY21: 0.59x). The debt profile majorly comprises term loan. This is further expected to increase in FY23, given the undrawn bank loan to be availed for the ongoing capex. However, despite increase in the debt levels, the overall gearing is expected to remain below unity owing to year-on-year profit strengthening the net worth of the company. Given the consistency in performance, the total debt to gross cash accruals (GCA) has further improved to 1.37x in FY22 (FY21: 2.07x). The interest coverage has improved to 12.38x in FY22 (FY21: 8.75x).

Experienced promoters and strong technical support from the foreign partner
SGIPL continues to benefit from its promoter and foreign partner. Strata System Inc., USA, which has 50% equity stake in SGIPL, has more than two decades of experience in manufacturing and marketing of technical textiles and is a 100% subsidiary of Glen Raven Inc., a 140-year-old company, which has manufacturing facilities on three continents, including North America, Europe, and Asia, and sells products in over 100 countries. Glen Raven Inc., USA is the leading global provider of high-performance fabrics for a wide variety of residential, commercial, and industrial applications catering to industries, such as automotive, petrochemicals, construction, mining, logistics, geosynthetics, filtration and protective fabrics for the Police, military, fire-fighters, etc. Furthermore, SGIPL's top line of management comprises professionals who are qualified and have vast experience in their respective fields; and all the technological assistance is provided by STRATA.

Key weaknesses

Stretched collection period, albeit moderately working capital intensive
Though the working capital cycle has improved in FY22 at 111 days (FY21: 143 days), the collection period continues to remain elongated at 91 days (FY21: 131 days). SGIPL's clientele comprises primarily of construction companies with billing being done on job-work basis with retention money clause in all contracts thereby leading to elongated collection period. Also, given that the significant portion of the revenue is booked in the last quarter, the receivables remain to be high as on year end. However, with its customers having a healthy credit profile and long relationship with most of them, the counter party risk continues to remain mitigated.

Susceptibility of margins to volatile raw material prices and foreign exchange rates
The key raw materials of the company, being HDPE and polyester yarn, are linked to the international crude prices and hence, subjected to volatility. Any adverse movement in prices of these raw materials has a negative impact on the operating margin of the company in absence of price variation clause in the contract with its customers. However, due to a strong presence in the domestic and international markets, the company attempts to pass on a considerable portion of the increase in price of raw materials to its customers in fresh contracts undertaken. The company does not have a formal hedging policy, as it enjoys natural hedge to a certain extent. SGIPL's imports of certain raw materials are reasonably offset by its exports. In absence of a formal hedging policy, the company is exposed to the fluctuations in forex rates for the unhedged amount.

Absence of escalation clauses in the contracts
The company enters into fixed-price contracts with road developers for design, engineering, construction and erection of the project. Although the contracts do not have any escalation or negotiations clause built in it for supply of geogrids/geocells, the company does have some flexibility to pass on the increase in material costs (cement, sand) to the customers, thereby making it partially susceptible to escalations in the cost in case of delays.

Capex continues to be in progress
The company is in the process of enhancing its geogrid's capacity 37 million sq. metres per annum to 55 million sq. metres per annum. The said capex as envisaged earlier was scheduled for completion till August 2022. However, the same has been extended and expected to be completed by March 31, 2023. The marginal delay is owing to SGIPL's additional enhancement in terms of quality parameters in the machine. Due to this upgradation of machinery, the supply was delayed. The said machinery is schedule for installation and commissioning by March 31, 2023. As per SGIPL's management, cost overrun is expected to be in the range of ₹10.00 crore and ₹15.00 crore, and the same will be funded by internal accruals given the adequate liquidity of the company. The full benefit of the said capex will be reflective in FY24.

Liquidity: Adequate

SGIPL's liquidity is adequate given that 65% of its working capital limits is unutilised for last 12 months ended December 31, 2022. Moreover, the company has around ₹31.00 crore of SBLC backed working capital facilities, out of which ₹23.50 crore remain unutilised by the company as on December 31, 2022. In addition to this, the gross cash accrual of the company in FY22 stood at ₹66.39 crore and is expected to remain on an improving trend in mid-term as well. The cash and cash equivalent on the company stood modest at ₹1.41 crore as on March 31, 2022. As against these adequate sources of fund, the principal debt obligation of the company for both the years, i.e., FY23 and FY24 is around ₹18.00 crore, respectively.

Applicable criteria

[Policy on default recognition](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Manmade Yarn Manufacturing](#)
[Manufacturing Companies](#)

About the company

Incorporated in September 2004, Strata Geosystems (India) Private Limited (SGIPL), is a joint venture promoted by Omnitex Industries (India) Limited and Strata Systems Inc (USA). SGIPL is primarily engaged in the manufacturing of Geogrids (a reinforcement material) and Geocells along with providing end-to-end solutions from designing to execution of constructing retaining wall for approach to flyovers with use of Geogrids. The technical textile products are used in geo-technical applications pertaining to soil, rocks, earth, roads, etc. These products are used in civil construction for soil improvement, construction of roads, railway lines, industrial floorings, drainage system, beach protection, and riverbank protection and erosion control.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	9MFY23 (UA)
Total operating income	306.19	456.37	360.00
PBILDT	60.48	86.30	NA
PAT	29.19	49.01	NA
Overall gearing (times)	0.59	0.46	NA
Interest coverage (times)	8.75	12.38	NA

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments / facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	36.00	CARE A; Stable
Fund-based - LT-Cash credit		-	-	-	7.00	CARE A; Stable
Fund-based - LT-Term loan		-	-	December 2027	69.00	CARE A; Stable
Fund-based - LT-Term loan		-	-	February 2026	11.00	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	6.00	CARE A2+
Non-fund-based - ST-BG/LC		-	-	-	8.50	CARE A2+

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	69.00	CARE A; Stable	1)CARE A; Stable (04-Apr-22)	-	1)CARE A-; Stable (30-Mar-21)	1)CARE A-; Stable (17-Mar-20)
2	Fund-based - LT-Cash credit	LT	36.00	CARE A; Stable	1)CARE A; Stable (04-Apr-22)	-	1)CARE A-; Stable (30-Mar-21)	1)CARE A-; Stable (17-Mar-20)
3	Non-fund-based - ST-BG/LC	ST	6.00	CARE A2+	1)CARE A2+ (04-Apr-22)	-	1)CARE A2+ (30-Mar-21)	1)CARE A2+ (17-Mar-20)
4	Fund-based - LT-Term loan	LT	11.00	CARE A; Stable	1)CARE A; Stable (04-Apr-22)	-	1)CARE A-; Stable (30-Mar-21)	1)CARE A-; Stable (17-Mar-20)
5	Fund-based - LT-Cash credit	LT	7.00	CARE A; Stable	1)CARE A; Stable (04-Apr-22)	-	1)CARE A-; Stable (30-Mar-21)	1)CARE A-; Stable (17-Mar-20)
6	Non-fund-based - ST-BG/LC	ST	8.50	CARE A2+	1)CARE A2+ (04-Apr-22)	-	1)CARE A2+ (30-Mar-21)	1)CARE A2+ (17-Mar-20)

* Long term / Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Lender details
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us
Media Contact
Name: Mradul Mishra
Phone: +91-22-6754 3573
E-mail: mradul.mishra@careedge.in

Analyst Contact
Name: Soumya Dasgupta
Phone: 91 - 22 - 6754 3456
E-mail: soumya.dasgupta@careedge.in

Relationship Contact
Name: Saikat Roy
Phone: +91- 022- 67543404 /136
E-mail: saikat.roy@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For detailed Rationale Report and subscription information, please visit www.careedge.in