



SMERA RATINGS LIMITED

Sarla Performance Fibers Limited (SPFL)

*Rating
Rationale*

August 06, 2015

Facilities	Amount (Rs. Crore)	Ratings
EPC/PSC/Short-term Loan/ WCDL/CC	10.00	SMERA A-/Stable (Assigned)
PC/PCFC/PSC/PSCFC	15.00	SMERA A2+ (Assigned)
EPC/PCFC/LC/BG/WCDL/CC	31.00*	SMERA A2+ (Assigned)
Pre-shipment Credit	10.00**	SMERA A2+ (Assigned)
PBD/ PCFC/ EPC	35.00	SMERA A2+ (Assigned)
PSFC/ PCFC	15.00#	SMERA A2+ (Assigned)
Post Shipment Facility for Purchase	15.00	SMERA A2+ (Assigned)
Letter of Credit	20.00##	SMERA A2+ (Assigned)
Letter Of Credit	15.00^	SMERA A2+ (Assigned)
Letter of Credit	20.00^^	SMERA A2+ (Assigned)
Import Letter of Credit	39.00@	SMERA A2+ (Assigned)

Note: For details on acronyms – refer Page 3

*Includes OD, Short-Term Loans, SLC, PSF, EBD and PSF under export LC as a sublimit

**Includes PSC, WCDL, ILC, Buyers Credit & Standby LC as a sublimit

#Includes OD, WCDL, LC, BG and Buyers credit as a sublimit

#Includes Buyers Credit & Standby LC as a sub-limit

^Includes PCFC & PSFC as sub-limit

^^Includes Buyers credit, PCFC, PSFC, CC, WCDL and Merchant LC as a sublimit

@Includes OD, Short-Term Loans, SLC, PSF, EBD and PSF under export LC as a sublimit

SMERA has assigned a long-term rating of '**SMERA A-** (read as **SMERA A minus**)' and a short-term rating of '**SMERA A2+**' (read as **SMERA A two plus**) to the above mentioned bank facilities of Sarla Performance Fibers Limited (SPFL). The outlook is '**Stable**'. The ratings derive comfort from the company's experienced management and established relations with reputed customers. The ratings are also supported by the company's healthy revenue growth, strong financial profile and widespread geographic presence. However, the ratings are constrained by the breakeven of the company's new manufacturing unit (in USA) expected in FY2016.

SPFL, incorporated in 1993, is a Mumbai-based company engaged in the manufacture of specialised high tenacity yarns. The company benefits from its experienced management. The directors of the company have around two decades of experience in the textile industry. SPFL also benefits from its established relations with reputed customers such as Hanesbrands, Gildan, American & Efird, Delta Galil, Coats, Jockey, Vardhaman and SBM.

SPFL's revenues have grown at a healthy compounded annual growth rate (CAGR) of 16 per cent over the past 10 years. The company's operating income increased to Rs.267.09 crore in FY2013-14 (refers to financial year, April 01 to March 31) from Rs.257.61 crore in FY2012-13. SPFL operates in a niche segment of the textile industry. The company reported strong operating profit margin of 19.54 per cent in FY2013-14. SPFL has registered healthy return on capital employed (RoCE) of

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14.24 per cent in FY2013–14. The company has comfortable debt protection metrics with debt-equity ratio of 1.38 times as on March 31, 2014 and interest coverage ratio of 8.75 times in FY2013–14. SPFL has strong resource mobilization capability. The company raised equity capital of ~Rs.49.00 crore through qualified institutional placement (QIP) in October 2014.

SPFL has widespread geographic presence with subsidiaries in USA, Portugal and Turkey. Also, the company has set up distribution centres in Thailand and Vietnam to cater to customers across 40 countries.

However, SPFL has recently set up a factory unit in USA for production of partially oriented yarn (POY) and textured yarn and the first phase of the manufacturing unit was commissioned in January 2014. The operations of the unit are likely to turn profitable within the next four quarters. The company is likely to incur capex of ~Rs.68.00 crore in FY2017–18 towards Phase II of the project.

Outlook: Stable

SMERA believes SPFL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management, established customer relationships and strong marketing network. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while achieving strong improvement in profit margins. The outlook may be revised to 'Negative' in case of decline in the company's operating profit margin, or in case of stretch in the company's working capital cycle.

About the Company

SPFL, incorporated in 1993, is a Mumbai-based company promoted by Mr. Madhusudhan Jhunjhunwala to manufacture specialised high tenacity yarns. The overall operations of the company are currently managed by Mr. Krishna Jhunjhunwala.

For FY2013–14, SPFL reported profit after tax (PAT) of Rs.32.15 crore on operating income of Rs.266.02 crore, as compared with PAT of Rs.27.98 crore on operating income of Rs.257.61 crore in FY2012–13. The company reported operating income of Rs.241.49 crore for the period April 2014 to December 2014. SPFL's net worth stood at Rs.169.13 crore as on March 31, 2014, as compared with Rs.142.45 crore a year earlier.

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Facilities	
PC	Packing Credit
PCFC	Pre-shipment Credit in Foreign Currency
PSCFC	Post Shipment Credit in Foreign Currency
LC	Letter of Credit
EPC	Export Packing Credit
PSC	Post Shipment Credit
PSFC	Pre/Post Shipment in Foreign Currency
WCDL	Working Capital Demand Loan
CC	Cash Credit

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