

### Sarla Performance Fibers Limited: Upgraded

Facilities	Amount (Rs. Crore)	Ratings/Outlook
EPC/PSC/Short-term Loan/ WCDL/CC	10.00	SMERA A/Stable (Upgraded from SMERA A-/Stable)
PC/PCFC/PSC/PSCFC	15.00	SMERA A1 (Upgraded from SMERA A2+)
EPC/PCFC/LC/BG/WCD L/CC	31.00*	SMERA A1 (Upgraded from SMERA A2+)
Pre-shipment Credit	10.00**	SMERA A1 (Upgraded from SMERA A2+)
PBD/ PCFC/ EPC	35.00	SMERA A1 (Upgraded from SMERA A2+)
PSFC/ PCFC	15.00#	SMERA A1 (Upgraded from SMERA A2+)
Post Shipment Facility for Purchase	15.00	SMERA A1 (Upgraded from SMERA A2+)
Letter of Credit	20.00##	SMERA A1 (Upgraded from SMERA A2+)
Letter Of Credit	15.00^	SMERA A1 (Upgraded from SMERA A2+)
Letter of Credit	20.00^^	SMERA A1 (Upgraded from SMERA A2+)
Import Letter of Credit	39.00@	SMERA A1 (Upgraded from SMERA A2+)

Note: For details on acronyms – please refer Page 4

\*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 upgraded the long-term rating to '**SMERA A**' (read as SMERA A) and short-term rating to '**SMERA A1**' (read as SMERA A One) from 'SMERA A-' (read as SMERA A minus) and 'SMERA A2+' (read as SMERA A two Plus) respectively assigned to the abovementioned bank facilities of Sarla Performance Fibers Limited (SPFL). The outlook is '**Stable**'. The rating upgrade is on account of improvement in profitability, gearing, coverage indicators and liquidity position of the company.

The ratings continue to derive comfort from the company's experienced management and established relations with reputed customers. The ratings are also supported by the company's strong financial risk profile and widespread geographic presence. However, the ratings are constrained by the moderate scale of operations and susceptibility of profit margins to volatility in raw material prices.

## Update

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 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.

SPFL's operating income stood at Rs.302.24 crore in FY2015-16, as compared with Rs.316.76 crore in FY2014-15. For HY2017, the company posted consolidated revenues of ~Rs.154.48 crore. The moderation in revenues is mainly on account of decline in sales realisations. The company's operating margin improved to 21.49 per cent in FY2015-16 as compared to 17.85 per cent in FY2014-15. The improvement in operating margin is mainly on account of decline in raw material cost.

SPFL's strong financial risk profile is marked by debt-to-equity ratio of 1.02 times as on March 31, 2016 as compared to 1.13 times as on March 31, 2015. The interest coverage ratio improved to 11.23 times in FY2015-16 as compared to 9.52 times in FY2014-15. The debt service coverage ratio stood at 2.42 times in FY2015-16 as compared to 1.34 times in FY2014-15. The coverage indicators are expected to improve going ahead due to stable profits, repayment of high value borrowings and moderate capex.

SPFL's working capital cycle stood at 142 days in FY2015-16 as compared to 137 days in FY2014-15. The debtor days remained at 92 days in FY2015-16 as compared to 91 days in FY2014-15. The inventory holding has increased to 143 days in FY2015-16 from 121 days in FY2014-15. SPFL has strong liquidity position with unencumbered cash and cash equivalents of ~Rs.80.00 crore as on March 31, 2016. The NCA to TD stood at 0.19 times in FY2015-16.

SPFL's profitability remains exposed to fluctuation in raw material prices (Nylon and POY) and forex rates.

## Rating Sensitivity Factors

- Sustained improvement in revenues and profitability
- Movement in capital structure and coverage indicators
- Efficient working capital management
- Higher than envisaged debt funded capex

## Outlook: Stable

SMERA believes SPFL will maintain a stable outlook 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 operating profit margin, stretch in the working capital cycle or higher than envisaged debt funded capex.

### Criteria applied to arrive at the rating:

- Manufacturing Entities
- Consolidation

### About the Company

SPFL, incorporated in 1993, is a Mumbai-based listed 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 FY2015-16, SPFL reported profit after tax (PAT) of Rs.45.04 crore on operating income of Rs.302.24 crore, as compared with PAT of Rs.27.94 crore on operating income of Rs.316.76 crore in FY2014-15. SPFL's net worth stood at Rs.261.80 crore as on March 31, 2016, as compared with Rs.229.70 crore a year earlier.

### Rating History:

Date	Facility	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
06 August, 2015	EPC/PSC/Short-term Loan/ WCDL/CC	10.00	SMERA A- (Assigned)	-	Stable
	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)	-
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	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)	-

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

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

<sup>^</sup>Includes PCFC & PSFC as sub-limit

<sup>^^</sup>Includes Buyers credit, PCFC, PSFC, CC, WCDL and Merchant LC as a sublimit

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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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### ABOUT SMERA

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