

## Press Release

### Sarla Performance Fibers Limited

22 March, 2018

### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 225.00 Cr.
<b>Long Term Rating</b>	SMERA A/ Outlook: Stable
<b>Short Term Rating</b>	SMERA A1

\*Refer Annexure for details

### Rating Rationale

SMERA has reaffirmed the long term rating to '**SMERA A**' (read as **SMERA A**) and short term rating to '**SMERA A1**' (read as **SMERA A one**) on the Rs. 185.00 crore bank facilities of Sarla Performance Fibers Limited (SPFL). SMERA has withdrawn short term rating of '**SMERA A1**' (read as **SMERA A one**) on the Rs.40.00 crore bank facilities. Further, SMERA has assigned short term rating of '**SMERA A1**' (read as **SMERA A one**) on the Rs. 40.00 crore bank facilities of SPFL. The outlook is '**Stable**'.

The rating continues 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 profile and widespread geographic presence. However, the ratings are constrained by working capital intensive operations and susceptibility of profit margins to volatility in raw material prices.

SPFL, incorporated in 1993, is a Mumbai-based company engaged in the manufacture of specialised high tenacity yarns. The yarn manufactured by the company is used in the manufacturing of innerwear, narrow fabrics, hosiery, sportswear etc. The company is listed with Bombay Stock Exchange and National Stock Exchange. The company has two wholly owned subsidiaries under the name of Sarl Overseas Holdings Limited (SOHL) at British Virgin Islands and Sarla Flex Inc., at United States of America and one step down subsidiary Sarla Europe LDA at Portugal.

The overall operations of the company are currently managed by Mr. Krishna Jhunjunwala and Mr. Madhusudhan Jhunjunwala. The company has one yarn manufacturing unit located in Silvassa and dyeing unit at Vapi, Gujarat. The company also has Partially Oriented Yarn (POY) manufacturing unit in USA through its subsidiary. The company derives around 47 percent of its revenue from exports while remaining 53 percent is derived from the domestic market.

The company caters to North and Central American market through its US based subsidiary and caters the Europe and South American markets through Portugal based step-down subsidiaries. The company caters to other markets including Middle East, Africa and Asia Pacific etc. through exports.

### List of key rating drivers and their detailed description

#### Strengths:

#### Established track record of operations and experienced management

The company has established track record of operations for the more than two decades in the yarn manufacturing industry. The company manufactures specialised high tenacity yarns which has wide range of application and used in the manufacturing of automotive seat belts and trims, airbags, upholstery, dress, casual & athletic footwear, leather goods, soft luggage, lingerie, swim wear, etc. The high value added nature of product results in healthy operating margin of 19.47 percent for FY 2017 as against 20.76 percent in the previous year.

The company has developed diversified and reputed customer base which spreads across 40 countries. The reputed clientele includes Hanes Brands, Gildan, American & Efird, Delta Galin, Coats & Jockey, Vardhaman, SBM, etc. SPFL reported stagnant revenue as the operating income stood at Rs. 296.89 crore for FY2017 as against Rs. 299.43 crore in the previous year mainly on account of lower capacity utilisation in the US subsidiary. In Q1FY18, SPFL has achieved revenue of Rs. 86.66 crore and Rs. 82.75 crore for Q2FY18.

The company also benefits from the extensive experience of its promoters Mr. Krishna Jhunjunwala and Mr. Madhusudhan Jhunjunwala who collectively possess more than five decades of experience in the textile industry.

SMERA believes that the extensive experience of the management will strengthen the business over the medium term.

### **Strong financial risk profile**

The financial risk profile of SPFL continues to remain strong marked by healthy networth of Rs. 293.13 crore as on 31st March, 2017 as against Rs. 261.32 crore in the previous year. The gearing also improved to 0.91 times as on March 31, 2017 as compared to 1.16 times as on March 31, 2016. The total debt of Rs. 267.74 crore as on 31st March, 2017 includes long term borrowing of Rs. 154.02 crore, unsecured loan from related parties of Rs. 9.00 crore and short term borrowings of Rs. 104.72 crore. The company maintains healthy debt protection metrics with interest coverage ratio at 11.38 times and debt service coverage ratio at 2.23 times in FY2017. The total outside liabilities to tangible networth (TOL/TNW) stood at 1.23 times as on 31st March, 2017 as against 1.40 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.18 times for FY 2017 as against 0.17 times in the previous year.

Going forward, SMERA expects the company to maintain its financial risk profile in the absence of major debt funded capex plan and moderate working capital requirements.

### **Weaknesses**

#### **Working capital intensive nature of operation**

The operating cycle of the company is elongated with stretched gross current asset days (GCA) of 259 for FY2017 as against 243 days for FY2016. The inventory days are high at 120 days for FY 2017 as against 143 days for FY 2016. The company has to maintain high level of raw material inventory due to dependence on imports and high level of finished goods as it caters to wide geographical market spreading across 44 countries. The debtor days stood at 112 for FY 2017 as against 90 days in the previous year. However, the liquidity position of the company is comfortable with partial utilisation of the bank limits as on 31st December, 2017.

#### **Susceptibility of profit margins to volatility in raw material prices and forex rates**

The margins of the company are susceptible to volatility in the prices of its raw material which is dependent on crude oil prices. The raw material cost constituted around 50 percent of the total revenue in FY 2017 as against ~ 47 percent in the previous year. SPFL imports around 49 percent of its raw material requirement mainly nylon fiber from overseas market. The company is presently setting up a nylon 6 and 66 fiber extrusion unit adjacent to its Silvasa plant which is expected to reduce the dependence on imports of nylon fiber. The total project cost is Rs.16.00 crore which will be funded entirely through internal accruals. The commercial operations are expected to commence from May, 2018 will not only reduce the dependence on the imports but also lead to improvement in the profitability for the company. The company reports 54 percent of its revenue in foreign currency and remaining is in Indian Rupee. SPFL imports around 22.19 percent of its turnover creating a natural hedge to that extent. However, the remaining exposure is susceptible to the volatility in foreign exchange rate in the absence of adequate hedging mechanism.

### Analytical approach:

SMERA has considered the consolidated business and financial risk profile of Sarla Performance Fibers Limited and its subsidiaries including Saral Overseas Holdings Limited (SOHL); Sarlaflex Inc and Sarla Europe LDA (Subsidiary of SOHL) for arriving at the rating. The financial performance of Joint venture (JV) Savitex S.A. De C.V., MRK S.A. De C.V. and Sarla Tekstil Filament Sanayi Ve Tic has not been considered while preparing the Consolidated Financial Results since 2013. The Honduras based JV Savitex S.A. De C.V. and MRK S.A. De C.V. are in commercial disputes since 2013 while the turkey based JV Sarla Tekstil Filament Sanayi Ve Tic is expected to be dissolved during FY 2018-19.

### Outlook: Stable

SMERA believes SPFL will continue to benefit by the company's experienced promoters, long-standing relationship with customers and strong marketing network. The outlook may be revised to 'Positive' if there is significantly higher than expected revenue growth with stable margins while maintaining comfortable liquidity position. Conversely, the outlook may be revised to negative in case there is any deterioration in operating margins or significant elongation of the working capital cycle, thereby leading to decline in debt protection indicators.

### Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

### About the Rated Entity –Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	296.89	299.43	316.76
EBITDA	Rs. Cr.	57.82	62.15	56.54
PAT	Rs. Cr.	41.08	45.04	27.94
EBITDA Margin	(%)	19.47	20.76	17.85
PAT Margin	(%)	13.84	15.04	8.82
ROCE	(%)	11.03	10.67	10.18
Total Debt/Tangible Net Worth	Times	0.91	1.16	1.13
PBDIT/Interest	Times	11.38	11.23	9.52
Total Debt/PBDIT	Times	3.30	4.15	4.22
Gross Current Assets (Days)	Days	259	243	256

**Status of non-cooperation with previous CRA (if applicable):** Not Applicable

**Any other information:** Not Applicable

**Rating History for the last three years:**

Date	Name of Facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
6 <sup>th</sup> Aug, 2015	EPC/PSC/Short-Term Loan/ WCDL/CC	Long Term	10.00	SMERA A-/Stable (Assigned)
	PC/PCFC/PSC/PSCFC	Short Term	15.00	SMERA A2+ (Assigned)
	EPC/PCFC/LC/BG/WCD L/CC	Short Term	31.00*	SMERA A2+ (Assigned)
	Pre-shipment Credit	Short Term	10.00**	SMERA A2+ (Assigned)
	PBD/ PCFC/ EPC	Short Term	35.00	SMERA A2+ (Assigned)
	PSFC/ PCFC	Short Term	15.00*	SMERA A2+ (Assigned)
	Post Shipment Facility for Purchase	Short Term	15.00	SMERA A2+ (Assigned)
	Letter of Credit	Short Term	20.00**	SMERA A2+ (Assigned)
	Letter of Credit	Short Term	15.00^	SMERA A2+ (Assigned)
	Letter of Credit	Short Term	20.00^^	SMERA A2+ (Assigned)
	Import Letter of Credit	Short Term	39.00@	SMERA A2+ (Assigned)
5 <sup>th</sup> Dec, 2016	EPC/PSC/Short-Term Loan/ WCDL/CC	Long Term	10.00	SMERA A/Stable (Upgraded from SMERA A-/Stable)
	PC/PCFC/PSC/PSCFC	Short Term	15.00	SMERA A1 (Upgraded from SMERA A2+)
	EPC/PCFC/LC/BG/WCD L/CC	Short Term	31.00*	SMERA A1 (Upgraded from SMERA A2+)
	Pre-shipment Credit	Short Term	10.00**	SMERA A1 (Upgraded from SMERA A2+)
	PBD/ PCFC/ EPC	Short Term	35.00	SMERA A1 (Upgraded from SMERA A2+)
	PSFC/ PCFC	Short Term	15.00*	SMERA A1 (Upgraded from SMERA A2+)
	Post Shipment Facility for Purchase	Short Term	15.00	SMERA A1 (Upgraded from SMERA A2+)

	Letter of Credit	Short Term	20.00**	SMERA A1 (Upgraded from SMERA A2+)
	Letter of Credit	Short Term	15.00^	SMERA A1 (Upgraded from SMERA A2+)
	Letter of Credit	Short Term	20.00^^	SMERA A1 (Upgraded from SMERA A2+)
	Import Letter of Credit	Short Term	39.00@	SMERA A1 (Upgraded from SMERA A2+)

*\*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*

**\*Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
EPC/PCFC/LC/BG/WC DL/CC	N.A	N.A	N.A	31.00*	SMERA A1 (Reaffirmed)
EPC/PSC/Short-Term Loan/ WCDL/CC	N.A	N.A	N.A	10.00	SMERA A/Stable (Reaffirmed)
PC/PCFC/PSC/PSCFC	N.A	N.A	N.A	15.00	SMERA A1 (Withdrawn)
Pre-shipment Credit	N.A	N.A	N.A	10.00**	SMERA A1 (Withdrawn)
PBD/ PCFC/ EPC	N.A	N.A	N.A	35.00	SMERA A1 (Reaffirmed)
PSFC/ PCFC	N.A	N.A	N.A	15.00#	SMERA A1 (Withdrawn)
Post Shipment Facility for Purchase	N.A	N.A	N.A	15.00 (enhanced from Rs. 15.00 crore)	SMERA A1 (Reaffirmed)
Letter of Credit	N.A	N.A	N.A	20.00##	SMERA A1 (Reaffirmed)
Letter of Credit	N.A	N.A	N.A	15.00^	SMERA A1 (Reaffirmed)
Letter of Credit	N.A	N.A	N.A	30.00^^ (enhanced from Rs. 20.00 crore)	SMERA A1 (Reaffirmed)
Import Letter of Credit	N.A	N.A	N.A	39.00@	SMERA A1 (Reaffirmed)
Proposed Packing Credit	N.A	N.A	N.A	25.00	SMERA A1 (Assigned)

\*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

**Note on complexity levels of the rated instrument:**

<https://www.smera.in/criteria-complexity-levels.htm>

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