Press Release

Sarla Performance Fibers Limited

May 08, 2019

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.225.00 Cr.
Long Term Rating	ACUITE A / Outlook: Stable
Short Term Rating	ACUITE A1

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE A**' **(read as ACUITE A)** and short term rating of **'ACUITE A1' (read as ACUITE A one)** on the Rs.225.00 crore bank facilities of SARLA PERFORMANCE FIBERS LIMITED (SPFL). The outlook is **'Stable'**.

The rating continues to derive comfort from the established presence of the promoters in the specialty yarn and established relations with reputed customers and suppliers. The ratings are also supported by the company's strong financial risk profile and widespread geographic presence of more than 40 countries catering to more than 100 customers. However, the ratings are constrained by working capital intensive operations and decline in profit margins due to volatility in raw material prices.

Mumbai- based, SPFL, incorporated in 1993 is engaged in the manufacturing 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 Jhunjhunwala and Mr. Madhusudhan Jhunjhunwala.

The company has two yarn manufacturing unit located in Silvassa and one dyeing unit at Vapi, Gujarat. The company also has Partially Oriented Yarn (POY) manufacturing unit in USA through its subsidiary, however same is put on haul from December 2017 due to continuing losses. During FY19, company has expanded its manufacturing facility in India by additional 7200 tonnes per year capacity. The company derives around 52 percent of its revenue from exports while remaining 48 percent is derived from the domestic market.

The company caters to North and Central American market through its US based subsidiary, SOHL 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.

Analytical Approach

Acuité 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 defunct company. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Established position in the domestic and overseas textile business:**
  SPFL benefits from the extensive experience of its promoters Mr. Krishna Jhunjhunwala and Mr. Madhusudhan Jhunjhunwala who collectively possess more than five decades of experience in the textile industry.

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 company earns ~52 percent of its revenue from export and balance from domestic market.

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.

Acuité believes that the extensive experience of the management and established global presence will strengthen the business risk profile over the medium term.

- **Strong financial risk profile**

SPFL has healthy financial risk profile reflected in strong net worth of Rs.252.53 crore (PY: Rs. 236.63 crore) as on 31st March, 2018. The gearing of the company improved to 0.87 times as on March 31, 2018 as compared to 1.10 times as on March 31, 2017. Further the company has strong debt protection metrics with interest coverage ratio of 9.47 times for FY18 as compared to 9.88 times in FY17. SPFL has moderate DSCR of 1.77 times in FY18 as against 2.03 times in the previous year. SFPL has set up nylon 6 and nylon 66 fiber extrusion units adjacent to its Silvasa Plant with installed capacity is 7200 tonnes per year. The total project cost is Rs.43.00 crore and funded by external commercial borrowing of Euro 3.50 Mn. (~Rs.27.00 Cr) and balance ~Rs.13.00 crore through internal accruals. The construction of the unit commenced in October, 2017 and commercial operations of unit commenced from Mid FY19. The new plant will partially reduce its dependence on imports of nylon fiber.

Acuité expects the company to maintain its financial risk profile in the absence of any large debt funded capex.

Weaknesses

- **Continuous loss reporting from the oversea subsidiary**

The overseas PoY manufacturing unit under Sarlaflex Inc has been put on haul since December 2017 due to continuous lower utilisaiton of installed capacity. The accumulated losses mounted to Rs.71.06 crore as on March 31, 2018. The company is expected to resume its operations only after collaboration with foreign partners which is not yet finalised. The company is expected to report losses of ~Rs.1.50 to 2.00 crore annually due to temporary shutdown of operations.

Acuité believes that lower than expected capacity utilization post resuming operations will have an impact on its credit risk profile.

- **Profitability susceptible to volatility in input prices and forex rates**

The cost of production and profit margins of the company is directly linked on crude oil prices. The raw material cost constituted around 52 percent of the total revenue in FY 2018 as against ~47 percent in the previous year. SPFL sources ~51 percent of raw material (nylon and polyester chips/fibre) from India and rest from imports. In FY2018, prices of major raw material i.e. POY ranged between Rs. 62 to Rs. 115 per kg (PY: Rs. 50 to Rs. 85 per kg) and that of Nylon yarn ranged between Rs. 210 to 310 per kg (PY: 175 to Rs. 220 per kg). The company was not able to pass the entire burden of increase in raw material prices to the customers during FY 2018 and FY19 resulting in declining profit margin. The operating margin (EBITDA) declined to 19.49 per cent in FY18 as compared to 22.91 per cent in FY17. Further, the FY19, nine month performance reported decline in margin and stood at 13.32 percent on standalone basis primarily due to rise in input price. The profit margin is expected to be supported to some extent by reduced dependence on import.

The profit margin is also susceptible to foreign exchange fluctuation risk. 52 percent of SPFL's revenue is in foreign currency (Dollar, Euro & GBP) and balance is in INR. Also, Company imports ~23 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.

- **Working capital intensive nature of operation**

The operations of the company are working capital intensive in nature as it has to maintain high inventory due to dependence on import and high level of finished goods as it caters to wide geographical market spreading across more than 40 countries. The inventory days stood at 86 days

during FY18 as compared to 98 days in FY17 and debtors stood at 98 days in FY18 as compared to 97 days in FY17.
Acuité believes that management of working capital cycle will be a key determinant of the credit profile of the company.

Liquidity Position
The company has strong liquidity position marked by healthy net cash accruals to its maturing debt obligations. The company generated net cash accruals of Rs.42.32 to 50.01 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.8.94 to 22.35 crore over the same period. The cash accruals of the company are estimated to remain around Rs.45.00 crore during 2019-21 while its repayment obligation are estimated to be around Rs. 14.00 crore. The working capital utilisation is moderate in last six months ended March 2019.
The company maintains unencumbered cash and bank balances of Rs.16.70 crore as on March 31, 2018. The current ratio stood healthy at 1.68 times as on March 31, 2018. The company is likely to incur capex of Rs.50.00 crore annually.

Acuite believes that the liquidity is likely to remain strong over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable
Acuité 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 significant 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 the company enters in to major capex affecting SPFL's capital structure.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	305.89	311.90	299.43
EBITDA	Rs. Cr.	59.62	71.46	62.15
PAT	Rs. Cr.	24.25	34.30	45.04
EBITDA Margin	(%)	19.49	22.91	20.76
PAT Margin	(%)	7.93	11.00	15.04
ROCE	(%)	10.49	12.40	11.62
Total Debt/Tangible Net Worth	Times	0.87	1.10	1.33
PBDIT/Interest	Times	9.47	9.88	11.23
Total Debt/PBDIT	Times	2.99	3.20	3.70
Gross Current Assets (Days)	Days	216	212	212

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-22.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-Mar-2018	EPC/PCFC/LC/BG/WC DL/CC	Short Term	31.00*	ACUITE A1 (Reaffirmed)
	EPC/PSC/Short-Term Loan/ WCDL/CC	Long Term	10.00	ACUITE A/ Stable (Reaffirmed)
	PC/PCFC/PSC/PSCFC	Short Term	15.00	ACUITE A1 (Withdrawal)
	Pre-shipment Credit	Short Term	10.00**	ACUITE A1 (Withdrawal)
	PBD/ PCFC/ EPC	Short Term	35.00	ACUITE A1 (Reaffirmed)
	PSFC/ PCFC	Short Term	15.00#	ACUITE A1 (Withdrawal)
	Post Shipment Facility for Purchase	Short Term	15.00 (enhanced from Rs. 15.00 crore)	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	20.00##	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	15.00^	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	30.00^^ (enhanced from Rs. 20.00 crore)	ACUITE A1 (Reaffirmed)
	Import Letter of Credit	Short Term	39.00@	ACUITE A1 (Reaffirmed)
	Proposed Packing Credit	Short Term	25.00	ACUITE A1 (Assigned)
05-Dec-2016	EPC/PSC/Short-Term Loan/ WCDL/CC	Long Term	10.00	ACUITE A/Stable (Upgraded from ACUITE A-/Stable)
	PC/PCFC/PSC/PSCFC	Long Term	15.00	ACUITE A1 (Upgraded from ACUITE A2+)
	EPC/PCFC/LC/BG/WC D L/CC	Short Term	31.00*	ACUITE A1 (Upgraded from ACUITE A2+)
	Pre-shipment Credit	Short Term	10.00**	ACUITE A1 (Upgraded from ACUITE A2+)
	PBD/ PCFC/ EPC	Short Term	35.00	ACUITE A1 (Upgraded from ACUITE A2+)
	PSFC/ PCFC	Short Term	15.00*	ACUITE A1 (Upgraded from ACUITE A2+)
	Post Shipment Facility for Purchase	Short Term	15.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Letter of Credit	Short Term	20.00##	ACUITE A1 (Upgraded from ACUITE A2+)
	Letter of Credit	Short Term	15.00^	ACUITE A1 (Upgraded from ACUITE A2+)
	Letter of Credit	Short Term	20.00^^	ACUITE A1 (Upgraded from ACUITE A2+)
	Import Letter of Credit	Short Term	39.00@	ACUITE A1 (Upgraded from ACUITE A2+)
06-Aug-2015	EPC/PSC/Short-Term Loan/ WCDL/CC	Long Term	10.00	ACUITE A- / Stable (Assigned)
	PC/PCFC/PSC/PSCFC	Short Term	15.00	ACUITE A2+ (Assigned)
	EPC/PCFC/LC/BG/WC D L/CC	Short Term	31.00*	ACUITE A2+ (Assigned)
	Pre-shipment Credit	Short Term	10.00**	ACUITE A2+ (Assigned)
	PBD/ PCFC/ EPC	Short Term	35.00	ACUITE A2+

				(Assigned)
	PSFC/ PCFC	Short Term	15.00*	ACUITE A2+ (Assigned)
	Post Shipment Facility for Purchase	Short Term	15.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	20.00##	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	15.00^	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	20.00^^	ACUITE A2+ (Assigned)
	Import Letter of Credit	Short Term	39.00@	ACUITE A2+ (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

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
EPC/PCFC/LC/BG/WC DL/CC	Not Applicable	Not Applicable	Not Applicable	31.00*	ACUITE A1 (Reaffirmed)
EPC/PSC/Short-Term Loan/ WCDL/CC	Not Applicable	Not Applicable	Not Applicable	10.00**	ACUITE A / Stable (Reaffirmed)
PBD/ PCFC/ EPC	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A1 (Reaffirmed)
Post Shipment Facility for Purchase	Not Applicable	Not Applicable	Not Applicable	20.00***	ACUITE A1 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00^	ACUITE A1 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00#	ACUITE A1 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	30.00^^	ACUITE A1 (Reaffirmed)
Import Letter of Credit	Not Applicable	Not Applicable	Not Applicable	39.00@	ACUITE A1 (Reaffirmed)
Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1 (Reaffirmed)

*Includes OD, Short-Term Loans, SLC, PSF, EBD and PSF under export LC as a sublimit.
**Includes PSC, WCDL, ILC, and Standby LC as a sublimit and fully interchangeable with each other and non-fund based facility.
*** Includes sublimit of pre-shipment loan to the extent of Rs. 15.00 crore, Letter of Credit of Rs. 20.00 crore.
#Includes Standby LC as a sub-limit.
^Includes PCFC & PSFC as sub-limit
^^Includes 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.

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