Press Release

Sarla Performance Fibers Limited

September 22, 2020

Rating Reaffirmed

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

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A**' **(read as ACUITE A)** and the 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 reaffirmation is based on the established track record of operations with rich experience of promoters in the speciality yarn business for over two decades. Acuité draws comfort from the presence of SPFL in 40 different geographies with 110 customers and the integrated level of operational capacity with spinning, dyeing and high tenacity twisting capacities. Further, reaffirmation also factors in the strong liquidity position of SPFL marked by healthy cash accruals against the repayment obligations coupled with adequate liquid funds to support the business in case of any unforeseen situations. The ratings, however, remain constrained at the same level due to the near-term impact of the COVID pandemic and the continuing lockdown from both the demand and supply perspectives in the textile industry coupled with stagnancy in the operating performance of the company.

About the Company:

Mumbai- based, SPFL, incorporated in 1993 is engaged in the manufacturing of specialized 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 the Bombay Stock Exchange and National Stock Exchange. The company has two wholly owned subsidiaries under the name of Sarla Overseas Holdings Limited (SOHL) at the British Virgin Islands and Sarla Flex Inc., at the 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, one dyeing unit at Vapi and one HT twisting unit at Dadra, 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 FY2019-20, the company has expanded its manufacturing facility in India by additional 4800 tonnes per year high tenacity twisting capacity in Dadra, Gujarat. The company derives around 52 percent of its revenue from exports while the remaining 48 percent is derived from the domestic market. The company caters to the North and Central American market through its US based subsidiary, SOHL and caters Europe and South American markets through Portugal based step-down subsidiaries. The company caters to other markets including the 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 Sarla 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. 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 more than two decades in the yarn manufacturing industry. The company manufactures specialized high tenacity yarns which has a 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, swimwear, etc. The company earns ~52 percent of its revenue from export and balance from the domestic market. The company has developed a 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

- **Healthy financial risk profile**
The company's financial risk profile is strong, marked by healthy net worth, low gearing and healthy debt protection metrics. The tangible net worth stood healthy at Rs.318.26 Cr as on March 31, 2020 as against Rs.272.23 Cr in the previous year. The company's leverage policy is supported by the healthy networth levels, reflected through its peak gearing and Total outside Liabilities to Tangible net worth (TOL/TNW) level of 0.90 times and 1.19 times as on March 31, 2019. The leverage level continues to remain supported with healthy networth with a gearing of 0.84 times and TOL/TNW of 1.06 times as on March 31, 2020. The total debt of the group stood at Rs.266.48 Cr as on March 31, 2020. SPFL incurred a debt-funded capital expenditure during FY2020 for setting up of high tenacity twisting capacity of 4,500 tonnes per annum, in Dadra which entailed a project cost of Rs.18.5 Cr funded by foreign currency loans of 4.5 Mn Euros (~Rs.34 Cr). The remaining bank funds were utilized for the refurbishment of the capacities at Silvassa plant. The gearing is expected to be in the range of 0.30 to 0.50 times over the medium term. SPFL has healthy profitability margins in the range of 18-19 percent over the last three year ended FY2020. The healthy profitably levels vis-à-vis its debt level has resulted in healthy debt protection metrics. The interest coverage ratio stood (ICR) and debt service coverage ratio (DSCR) stood at 5.89 and 3.56 times, respectively for FY2020. Acuité expects the financial risk profile to remain healthy over the medium term on account of healthy accretion to reserves, absence of significant debt-funded capex and healthy profitability margins.

Weaknesses

- **Working capital intensive nature of business**
The working capital operations of the company have shown elongation as exhibited by gross current assets (GCA) of 241 days for FY2020 as against 216 days for FY2019. The increase in GCA is majorly on account of stretch in receivables as seen from receivable days of 107 days in FY2020 against 91 days in FY2019. The company exports ~70 percent, which is backed by a letter of credit of 90 to 120 days, issued by the customers; the remaining 30 percent is received in advance. The local sales are backed by 60 to 90 days LC. More so, the GCA days are also influenced by the inventory days at 75 days for FY 2020 as against 78 days for FY 2019. The company has to maintain a high level of raw material inventory due to dependence on imports and a high level of finished goods as it caters to a wide geographical market spreading across 40 countries. Working capital facilities remained moderately utilized at ~32 per cent through twelve months ending July-2020. Acuité believes the maintenance of working capital operation level will remain key credit monitorable.

- **Continuous losses reporting from the overseas 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.92.97 Cr as on March 31, 2020. The company is expected to resume its operations; however, nothing has been finalized on those grounds. The company is expected to report losses of ~Rs.1.50 to 2.00 Cr annually due to the temporary shutdown of operations. The company's ability to cut its losses and turnaround the overseas business will remain a key monitorables.

- **Susceptibility of profitability to input price volatility and forex rates**
The cost of production and profit margins of the company is directly linked to crude oil prices. The raw material cost constituted around 50 percent of the total revenue in FY2020 as against ~58 percent in the

previous year. SPFL sources ~51 percent of raw material (nylon and polyester chips/fibre) from India and rest from imports. In FY2020, prices of major raw material, i.e. POY ranged between Rs. 55 to Rs. 175 per kg (PY: Rs. 62 to Rs. 115 per kg) and that of Nylon yarn ranged between Rs. 180 to 260 per kg (PY: 210 to Rs. 310 per kg). The operating margin (EBITDA) stood to 18.75 per cent in FY2020 as compared to 18.82 per cent in FY2019. The profit margin is expected to be supported to some extent by reduced dependence on import. Additionally, 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 Indian Rupee. Also, the company imports ~23 percent of its turnover creating a natural hedge to that extent. The company maintains adequate forward cover to hedge the exposure in foreign currency.

Rating Sensitivities

- Growth in topline with sustained profitability margins
- Any stretch in working capital operations leading to liquidity constraints

Material Covenants

1. TOL/TNW < 2.0x
2. ICR > 5.0x
3. Current Ratio > 1.2x
4. EBITDA > 15 %
5. Debt/EBITDA < 4.0x

Liquidity: Strong

The liquidity of the company is strong, marked by healthy net cash accruals against its debt repayments. Net cash accruals stood at Rs.54.3 Cr in FY2020 against Rs.6.9 Cr of repayment obligations corresponding to it. Further, net cash accruals are estimated to remain in the range of Rs.35 Cr – Rs.50 Cr during 2021-23, while its repayment obligations are expected to be Rs.16.73 – Rs.33.75 Cr; which gives adequate comfort for the incremental working capital requirements in the medium term. Additionally, SPFL's liquid investments in the form of fixed deposits stood at Rs.82.1 Cr as on 31st March, 2020 along with unencumbered cash and bank balances of Rs.7.6 Cr for the same period. The current ratio of the company also stood healthy at 1.98 times as on 31st March, 2020. Moreover, the company did not avail any moratorium for debt servicing during this period of Q1FY2021 as per the RBI Guidelines. Acuité believes the liquidity of SPFL is expected to remain strong on account of healthy cash accruals against debt repaying obligations with adequate liquid funds to support any uncertain jerks.

Outlook: Stable

Acuité believes that SPFL will maintain a 'Stable' outlook over the medium term supported by experienced promoters and long-standing relationship with customers and a strong marketing network. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected revenues and profit margins, leading to deterioration in financial risk profile and or any further deterioration in working capital.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	318.96	329.89
PAT	Rs. Cr.	29.11	25.53
PAT Margin	(%)	9.13	7.74
Total Debt/Tangible Net Worth	Times	0.84	0.90
PBDIT/Interest	Times	5.89	8.25

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm

- Consolidation of Companies – https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
08-May-2019	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)
	PBD/PCFC/EPC	Short Term	35.00	ACUITE A1 (Reaffirmed)
	Post Shipment Facility for Purchase	Short Term	20.00***	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	20.00^	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	20.00#	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	30.00^^	ACUITE A1 (Reaffirmed)
	Import Letter of Credit	Short Term	39.00@	ACUITE A1 (Reaffirmed)
	Proposed Packing Credit	Short Term	20.00	ACUITE A1 (Reaffirmed)
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 (Withdrawn)
	Pre-shipment Credit	Short Term	10.00**	ACUITE A1 (Withdrawn)
	PBD/PCFC/EPC	Short Term	35.00	ACUITE A1 (Reaffirmed)
	PSFC/PCFC	Short Term	15.00#	ACUITE A1 (Withdrawn)
	Post Shipment Facility for Purchase	Short Term	15.00(enhanced from Rs.15.00 Cr)	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 Cr)	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)
	PC/PCFC/PSC/PSCFC	Short Term	15.00	ACUITE A1 (Upgraded)

	EPC/PCFC/LC/BG/WC DL/CC	Short Term	31.00*	ACUITE A1 (Upgraded)
	Pre-shipment Credit	Short Term	10.00**	ACUITE A1 (Upgraded)
	PBD/PCFC/EPC	Short Term	35.00	ACUITE A1 (Upgraded)
	PSFC/PCFC	Short Term	15.00	ACUITE A1 (Upgraded)
	Post Shipment Facility for Purchase	Short Term	15.00	ACUITE A1 (Upgraded)
	Letter of Credit	Short Term	20.00##	ACUITE A1 (Upgraded)
	Letter of Credit	Short Term	15.00^	ACUITE A1 (Upgraded)
	Letter of Credit	Short Term	20.00^^	ACUITE A1 (Upgraded)
	Import Letter of Credit	Short Term	39.00@	ACUITE A1 (Upgraded)

**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 OD, WCDL, LC, as a sublimit.
##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.
@@ includes sublimit of Letter of Credit to the extent of Rs. 35.00 crore.

*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/WCDL/CC	Not Applicable	Not Applicable	Not Applicable	31.00*	ACUITE A1 (Reaffirmed)
EPC/PSC/STL/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	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 OD, WCDL, LC, as a sublimit
^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

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Sagarikaa Mukherjee Analyst - Rating Operations Tel: 022-49294033 sagarikaa.mukherjee@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.