

Press Release

Sarla Performance Fibers Limited

December 23, 2021

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Ratings Loan	215.00		ACUITE A1 Reaffirmed
Bank Ratings Loan	10.00	ACUITE A Stable Reaffirmed	
Total	225.00	-	-

Rating Rationale

Acuite 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 Cr bank facilities of Sarla Performance Fibers Limited (SPFL). The outlook is 'Stable'.

The rating reaffirmation continues to factor in extensive experience of promoters in the specialty yarn business for over two decades, diversified revenue mix with exports contributing 59 percent of the total revenue in FY2021. The rating also favorably factors in healthy debt coverage metrics and stable operational performance in FY2021 which is expected to further improve in FY2022 with an increase in revenue and profitability. However, the rating is conscious to the risk of fluctuating raw material prices, continued losses in overseas operations and foreign exchange fluctuation risk. Also, further elongation in the working capital cycle will remain a key rating sensitivity.

About the Company

Mumbai-based, SPFL, incorporated in 1993 is engaged in the manufacturing of specialized high tenacity yarns. The overall operations of the company is managed by Mr. Krishnakumar Jhunjhunwala. The yarn manufactured by the company is used in the manufacturing of automotive seat belts and trims, airbags, upholstery, dress, casual & athletic footwear, leather goods, soft luggage, lingerie, swimwear and sportswear. The company has two yarn manufacturing unit located in Silvassa, one dyeing unit at Vapi and one HT twisting unit at Dadra. The company also has Partially Oriented Yarn (POY) manufacturing unit in USA through its subsidiary; however same has been shut since December 2017 due to continuing losses. The company has two wholly owned subsidiaries under the name of Sarla Overseas Holdings Limited (SOHL) in the British Virgin Islands and Sarla Flex Incorporated, in the United States of America and one step down subsidiary Sarla Europe LDA at Portugal. The company caters to the North and Central American market through its US based subsidiary, SOHL and caters to Europe and South American markets through Portugal based step-down subsidiaries.

Analytical Approach

Acuite 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

- **Experienced management and established track record in textile business:**

SPFL benefitted from the extensive experience of its promoters Mr. Krishnakumar Jhunjhunwala and Mr. Madhusudhan Jhunjhunwala, who collectively possess more than two decades of experience in the textile industry. SPFL was the first company to manufacture Nylon 66 in India that can be utilized in a range of applications. Over the years, the company has managed to create a strong client base of 235 customers and exports to around 60 countries. However, due to the demise of Mr. Madhusudhan Jhunjhunwala in July, 2021, the company is presently managed by Mr. Krishnakumar Jhunjhunwala. Nonetheless, the management has ensured a steady succession plan. The daughter and son of Mr. Krishnakumar Jhunjhunwala, Ms. Neha Jhunjhunwala and Mr. Kanav Jhunjhunwala are actively involved in the company's operations for the past 11 years and 2 years respectively. Further, the promoters are adequately supported by highly qualified professionals.

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

- **Diversified Clientele:**

The company has an established clientele and caters to customers like Infilloom India, Filene SL, Page Industries, Vardhaman, Elevate textiles, American & Efirid, etc. The company supplies to Mexico, Spain, Portugal, France, Brazil, Middle East, Africa and Asia Pacific. SPFL earned ~59 percent of its revenue from exports while remaining 41 percent is derived from the domestic market. The company intends to enhance its domestic share to 45 percent in FY2022 and FY2023, an increase in the domestic sales is expected to improve profitability due to reduction in packing cost and freight charges.

- **Healthy financial risk profile:**

The healthy financial risk profile of the company is marked by healthy net worth, low gearing and healthy debt protection metrics. The tangible net worth stood at Rs. 343.72 Cr as on March 31, 2021 as against Rs. 318.29 Cr in the previous year. The total debt of the company reduced to Rs. 149.05 Cr as on March 31, 2021 from Rs. 266.54 Cr as on March 31, 2020. The gearing (debt to equity) stood at 0.43 times as on March 31, 2021 as against 0.83 in the previous year. SPFL follows a conservative leverage policy with peak gearing of 0.90 times as on March 31, 2021. The operational performance of the company remained stable despite the disruptions caused by Covid 19. The capacity utilization marginally reduced to 76 percent in FY2021 as against 83 percent in FY2020. The profitability of SPFL improved to 24.37% in FY2021 as against 18.75% in FY 2020, the growth in profitability can be attributed to decline in raw material cost due to fall in crude oil prices, however, such growth is temporary in nature, operating margins are expected to be in the range of 19-20 percent in FY2022. The interest coverage ratio stood (ICR) improved marginally to 5.95 times in FY2021 as against 5.89 times in FY 2020.

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 operations of the company are working capital intensive as reflected by gross current assets (GCA) of 302 days in FY2021 as against 238 days in FY2020. The increase in GCA is majorly on account of increased receivable days to 133 in FY2021 against 107 in FY2020 and increased inventory days to 126 in FY2021 against 75 in FY2020. The increase in debtor days

can be attributed to record sales of Rs. 87.79 Cr in Q4FY2021. However, export debtors of ~70 percent are backed by a letter of credit of 90 to 120 days, the remaining 30 percent is received in advance and domestic sales are backed by 60 to 90 days LC, thereby alleviating the risk of uncollectible receivables. More so, an increase in inventory days can be partially attributed to improved sales of Rs. 81.69 Cr in Q1FY2022, also the company has to maintain a high level of raw material inventory due to dependence on imports.

Acuité believes that any further elongation in working capital cycle will remain key credit monitorable.

• **Continuous losses reporting from the overseas subsidiary**

The overseas PoY manufacturing unit under Sarlaflex Inc has been shut since December 2017 due to continuous lower utilization of installed capacity. The accumulated losses mounted to Rs. 28.71 Cr as on March 31, 2021. Going forward the company intends to either revive the plant with a local partner or divest, however, no fresh investments shall be made in the plant. The company is expected to report incur cash expenses of ~Rs.0.50 Cr to 0.60 Cr annually due to the temporary shutdown of operations.

• **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 ~44 percent of the total revenue in FY2021 as against ~50 percent in the previous year. In FY2021, average prices of major raw material, Partially Oriented Yarn (PoY)-Polyester reduced to Rs. 74 per kg as against Rs. 85 per kg in FY 2020 and nylon chips reduced to Rs. 127 per kg as against Rs. 135 per kg in FY 2020. The reduction in raw material cost can be attributed to the fall in crude oil price, resultant the operating margin (EBITDA) stood to 24.37% per cent in FY2021 as compared to 18.75% percent in FY2020. However, going forward the company is expected to maintain a profit margin of 19-20 percent. Besides, the profit margin is also susceptible to foreign exchange fluctuation risk. The inflows include exports that accounts for 59 percent of the revenue and outflows include raw material imports to the extent of 25 percent of revenue and debt repayment against foreign currency loan, thereby creating a natural hedge. Additionally, the company maintains adequate forward cover to hedge the exposure in foreign currency, the average forward cover in FY2021 was three months of revenue.

Rating Sensitivities

- Growth in revenue with sustained profitability.
- Any stretch in working capital operations leading to liquidity constraints.
- Further infusion in overseas operations thereby adversely impacting the overall capital structure.

Material covenants

Current ratio \geq 1.33x
TOL/TNW \leq 1.25x
Interest coverage \geq 4.0x
TOL/EBITDA \leq 4.0x
EBITDA \geq 15%
Debt/EBITDA $<$ 4.25x

Liquidity Position: Strong

The liquidity of the company is strong, marked by healthy net cash accruals against its debt repayments. Net cash accruals stood at Rs. 52.28 Cr in FY2021 against Rs. 30.44 Cr of repayment obligations for the same period. Further, net cash accruals are estimated to be Rs. 51.19 Cr and Rs. 50.59 Cr while its repayment obligations are expected to be Rs. 17.24 Cr and Rs. 17.14 Cr in FY2022 and FY2023 respectively; which gives adequate comfort for the incremental working capital requirements in the medium term. The working capital cycle days

as on March 31, 2021 stood at 176 as against 132 in the previous year. The working capital intensive nature of operations is supported by bank limits. The average bank limit utilization (fund and non-fund based) was 63 percent for the month ended November 2021. Additionally, SPFL's liquid investments in the form of fixed deposits stood at Rs. 88.69 Cr as on 31st March, 2021 along with unencumbered cash and bank balances of Rs. 11.92 Cr for the same period. The current ratio of the company also stood healthy at 1.75 times as on 31st March, 2021.

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 business uncertainty.

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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	264.34	318.94
PAT	Rs. Cr.	26.55	29.11
PAT Margin	(%)	10.04	9.13
Total Debt/Tangible Net Worth	Times	0.43	0.84
PBDIT/Interest	Times	5.95	5.89

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-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Sep 2020	Letter of Credit	Short Term	39.00	ACUITE A1 (Reaffirmed)
	Post Shipment 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)
	Letter of Credit	Short Term	20.00	ACUITE A1 (Reaffirmed)
	Packing Credit	Long Term	10.00	ACUITE A Stable (Reaffirmed)
	Proposed Packing Credit	Short Term	20.00	ACUITE A1 (Reaffirmed)
	Packing Credit	Short Term	31.00	ACUITE A1 (Reaffirmed)
	Packing Credit	Short Term	35.00	ACUITE A1 (Reaffirmed)
08 May 2019	Letter of Credit	Short Term	20.00	ACUITE A1 (Reaffirmed)
	Packing Credit	Short Term	35.00	ACUITE A1 (Reaffirmed)
	Packing Credit	Long Term	10.00	ACUITE A Stable (Reaffirmed)
	Proposed Packing Credit	Short Term	20.00	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A1 (Reaffirmed)
	Packing Credit	Short Term	31.00	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	39.00	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	30.00	ACUITE A1 (Reaffirmed)
	Post Shipment Credit	Short Term	20.00	ACUITE A1 (Reaffirmed)
22 Mar 2018	Term Loan	Long Term	10.00	ACUITE A Stable (Reaffirmed)
	Packing Credit	Short Term	15.00	ACUITE A1 (Withdrawn)
	Packing Credit	Short Term	31.00	ACUITE A1 (Reaffirmed)
	Packing Credit	Short Term	10.00	ACUITE A1 (Withdrawn)
	Packing Credit	Short Term	35.00	ACUITE A1 (Reaffirmed)
	Post Shipment Credit	Short Term	15.00	ACUITE A1 (Withdrawn)
	Bills Discounting	Short Term	15.00	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A1 (Reaffirmed)
		Short		

	Letter of Credit	Term	15.00	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	30.00	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	39.00	ACUITE A1 (Reaffirmed)
	Proposed Packing Credit	Short Term	25.00	ACUITE A1 (Assigned)
05 Dec 2016	Term Loan	Long Term	10.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Packing Credit	Short Term	15.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Packing Credit	Short Term	31.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Packing Credit	Short Term	10.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Packing Credit	Short Term	35.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Post Shipment Credit	Short Term	15.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Bills Discounting	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+)
	Letter of Credit	Short Term	39.00	ACUITE A1 (Upgraded from ACUITE A2+)
06 Aug 2015	Term Loan	Long Term	10.00	ACUITE A- Stable (Assigned)
	Packing Credit	Short Term	15.00	ACUITE A2+ (Assigned)
	Packing Credit	Short Term	31.00	ACUITE A2+ (Assigned)
	Packing Credit	Short Term	10.00	ACUITE A2+ (Assigned)
	Packing Credit	Short Term	35.00	ACUITE A2+ (Assigned)
	Post Shipment Credit	Short Term	15.00	ACUITE A2+ (Assigned)
	Bills Discounting	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)
	Letter of Credit	Short Term	39.00	ACUITE A2+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Bahrain and Kuwait	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1 Reaffirmed
Indusind Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A1 Reaffirmed
P T Bank Maybank Indonesia (Formerly, Bank International Indonesia)	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1 Reaffirmed
Standard Chartered Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	39.00	ACUITE A1 Reaffirmed
HDFC Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1 Reaffirmed
CITI Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	31.00	ACUITE A1 Reaffirmed
Bank of Bahrain and Kuwait	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A Stable Reaffirmed
DBS Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A1 Reaffirmed
Yes Bank Ltd	Not Applicable	Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1 Reaffirmed

Bank of Bahrain and Kuwait: EPC or PC/PCFC and PSC are fully interchangeable with each other and includes Short term loan, WCDL, CC, LC as sublimit.

Indusind Bank: includes sublimit of CC, WCDL, sales bill discounting, purchase bill discounting, standby LC, Post shipment credit in foreign currency, EPC, Capex LC.

P T Maybank: PCFC main facility and includes EPC in INR, PSFC, Post shipment in INR and letter of credit as sublimit.

Standard Chartered bank: includes Overdraft, Short term loans, Financial guarantees, Standby letter of credit, Pre shipment financing under export order, Export bill discounting, Export invoice facility, Pre shipment financing under export letter of credit, credit bills negotiated as sublimits.

HDFC Bank: includes post shipment credit, LC, CC, WCDL, Buyer's credit, BG as sublimit.

Citibank: includes BD, LC WCDL, CC, Buyer's credit, and BG as a sublimit.

DBS Bank : includes Overdraft, CC, LC as sublimit.

Yes Bank: includes sublimit of pre-shipment loan to the extent of Rs. 15.00 crore, Letter of Credit of Rs. 20.00 crore and includes OD, WCDL, LC, as a sublimit

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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 8,850 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 Kanjurmarg, Mumbai.

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