Press Release

Sarla Performance Fibers Limited

March 17, 2023

Rating Reaffirmed

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

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE A' (read as ACUITE A)** and the shortterm 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'**.

Rationale for reaffirmation

The rating factors in extensive experience of promoters in the specialty yarn business for over two decades, improved operating performance along with diversified revenue mix with export of around 52 percent in FY2022, contributed by its diversified clientele. The rating also draws comfort from the healthy financial risk profile of SPFL marked by healthy net-worth, low gearing and comfortable debt coverage indicators. However, the rating is conscious to the risk of fluctuating raw material prices, intensive working capital operations and foreign exchange fluctuation risk. Also, further elongation in the working capital cycle will remain a key rating sensitivity going ahead.

About 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. 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

Extent of Consolidation

• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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.

Key Rating Drivers

Strengths

Experienced management and established t rack 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. This reflects in its stable operating performance over the years and improved revenues during FY2022 which stood at Rs. 431.10 Cr. against Rs. 264.34 Cr. in FY2021. However, as on 9MFY2023 the company has achieved revenues of around Rs. 325.74 Cr. The average EBITDA margins for last three years have stood at around 20 percent. 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 Infiiloom India, Fitlene SL, Page Industries, Vardhaman, Elevate textiles, American & Efird, etc. The yarn manufactured by the company is used in the manufacturing of automotive seat belts and trims, upholstery, athletic footwear, leather goods, soft luggage, lingerie, swimwear and sportswear. Further the special high tenacity yarn is a niche market and the high strength yarn is used in the manufacturing of airbags, parachute etc. The company supplies to Mexico, Spain, Portugal, France, Brazil, Middle East, Africa and Asia Pacific. During FY2022, SPFL earned ~52 percent of its revenue from exports while remaining 48 percent was derived from the domestic market against 45 perent in FY2021. The company intends to enhance its domestic share to 50 percent in the coming years. Increase in the domestic sales is expected to improve profitability due to reduction in packing cost and freight charges.

Healthy financial risk profile

The financial risk profile of the company is healthy marked by healthy net worth, low gearing and healthy debt protection metrics. The tangible net worth stood at Rs. 391.94 Cr. as on March 31, 2022 against 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 has reduced to Rs. 134.77 Cr. as on March 31, 2022 against Rs. 149.05 Cr as on March 31, 2021 and Rs. 266.54 Cr as on March 31, 2020. The gearing (debt to equity) further stood improved at 0.34 times as on March 31, 2022 against 0.43 times as on March 31, 2021 and 0.83 times in the previous year. SPFL follows a conservative leverage policy as reflected in its peak gearing over the years. Further, during FY2022 the company has repaid a major portion of its long term foreign curreny loans carrying higher interest rates. This has resulted in significant reduction in its finance cost and implicit improvement in its debt coverage indicators. The interest coverage ratio (ICR) and DSCR stood improved at 21.38 times in FY2022 against 5.95 times in FY2021 and 2.24 times in FY2022 against 1.40 times in FY2021 respectively.

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 stable operating performance.

Weaknesses

Working capital intensive nature of business
The operations of the company are working capital intensive as reflected by although improved but high gross current assets (GCA) of 208 days in FY2022 against 302 days in FY2021. The GCA is majorly dominated by higher inventory days of 117 and 126 during FY2922 and FY2021 respectively. Further, since more than 50 percent of company's revenue is derived from overseas clientele SPFL has to extend some credit periond which is backed by letter of credit of upto 90 to 120 days. The domestic sales are backed by 60 to 90 days LC, thereby alleviating the risk of uncollectible receivables. The debtor days for FY2022 stood at 86 against 133 in FY2021. More so, the company has to maintain a high level of raw material inventory due to dependence on imports. The company is able to receive and average credit period of around 60 days
Acuité believes that any further elongation in working capital cycle will remain key credit monitorable.

Susceptibility of profitability to input price volatility and forex rates
The cost of production and profit margin of the company is directly linked to crude oil prices. The raw material cost constituted around 53 percent in FY2022 against ~44 percent of the total revenue in FY2021 as against ~50 percent in the previous year. The fluctuation in raw material cost can be attributed to the changes in crude oil price, resultant the operating margins (EBITDA) have remained fluctuating at 20.67 percent in FY2022 against 24.37 per cent in FY2021 and 18.75% percent in FY2020. However, on an average the company is able to maintain a profit margin of 19- 20 percent as to some extent, it is successful in passing on the pricing to its clients. Further, the profit margin is also susceptible to foreign exchange fluctuation risk . However, the forex risk is naturally hedged to some extent. The foreign inflows include exports that accounts for 52 percent of the revenue and outflows include raw material imports to the extent of 25-30 percent of revenue along with 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.

Rating Sensitivities

- Growth in revenue with sustained profitability.
- Any stretch in working capital operations leading to liquidity constraints.

Material Covenants

Gearing< 2.00x
Current ratio>= 1.33x
TOL/TNW<= 1.25x
Interest coverage>= 4.0x
TOL/EBITDA<= 4.0x
Debt/EBITDA< 4.25x

Non Financial Covenant
1. Promoter shareholding not less than 51%

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. 73.88 Cr in FY2022 against Rs. 30.44 Cr of repayment obligations for the same period. Further, net cash accruals are estimated to be at Rs. 60-70 Cr while its repayment obligations are expected to be Rs. 17.17 Cr and Rs. 17.50 Cr in FY2023 and FY2024 respectively; which gives adequate comfort for the incremental working capital requirements in the medium term. The working capital cycle days as on March 31, 2022 stood at 135 against 176 as on March 31, 2021 and 156 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 83 percent for the six month January 2023. Additionally, SPFL's liquid investments in the form of unencumbered fixed deposits stood at Rs. 39.59 Cr as on 31st March, 2022 along with cash and bank balances of Rs. 4.98 Cr for the

same period. The current ratio of the company also stood healthy at 1.53 times as on 31st March, 2022.
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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	431.10	264.34
PAT	Rs. Cr.	47.35	26.55
PAT Margin	(%)	10.98	10.04
Total Debt/Tangible Net Worth	Times	0.34	0.43
PBDIT/Interest	Times	21.38	5.95

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

Not Applicable

Any Other Information

Not Applicable

Applicable Criteria

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

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Dec 2021	Packing Credit	Long Term	10.00	ACUITE A | Stable (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A1 (Reaffirmed)
	Packing Credit	Short Term	35.00	ACUITE A1 (Reaffirmed)
	Packing Credit	Short Term	20.00	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	39.00	ACUITE A1 (Reaffirmed)
	Post Shipment Credit	Short Term	20.00	ACUITE A1 (Reaffirmed)
	Packing Credit	Short Term	31.00	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	30.00	ACUITE A1 (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Bahrain and Kuwait	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A1 | Reaffirmed
Indusind Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	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	Simple	20.00	ACUITE A1 | Reaffirmed
Standard Chartered Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	39.00	ACUITE A1 | Reaffirmed
HDFC Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A1 | Reaffirmed
CITI Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	31.00	ACUITE A1 | Reaffirmed
Bank of Bahrain and Kuwait	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A | Stable | Reaffirmed
DBS Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE A1 | Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.