Press Release
SARLA PERFORMANCE FIBERS LIMITED
November 13, 2023
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE A- | Stable | Downgraded	-
Bank Loan Ratings	215.00	-	ACUITE A2+ | Downgraded
Total Outstanding Quantum (Rs. Cr)	225.00	-	-

Rating Rationale

Acuité has downgraded the long-term rating to **'ACUITE A-' (read as ACUITE A minus)** from **ACUITE A (read as ACUITE A)** and the short-term rating to **ACUITE A2+ (read as ACUITE A two plus)** from **'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 downgrade

The rating downgrade factors in the sequential deterioration in the operating performance of SPFL. The revenues of the company declined to Rs.389 Cr. in FY2023 against Rs. 431 Cr. in FY2022. The deterioration in revenues further continued during H1FY2024 and stood at Rs.181 Cr. against Rs. 233 Cr. during the corresponding H1FY2023. Furthermore, the operating profit of the company also witnessed deterioration marked by sequential drop in the EBITDA margins from 20.23% in FY2022 to 15.06% in FY2023 and further at 14.24% in H1FY2024. The drop is attributed to a global market slowdown, influenced by stockpiling of inventory and price correction in crude derivatives products such as polyester and nylon yarns. The reduction was mainly due to an excess of inventory in the global market which created shortage in demand. This situation caused a decline of 11% in the number of units sold, from 13,782 in FY2022 to 12,267 units in FY2023. However, the rating continues to draw comfort from extensive experience of promoters in the specialty yarn business for over two decades, healthy financial risk profile of SPFL marked by healthy net-worth, low gearing and comfortable debt coverage indicators. 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.

Unsupported Rating
Not Applicable

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, established t rack record in textile business and diversified clientele
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 12 years and 3 years respectively. The promoters are adequately supported by highly qualified professionals. Further, 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 FY2023 & 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.
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 comfortable financial risk profile of the company is marked by healthy net worth, low gearing and adequate debt protection metrics. The tangible net worth stood at Rs. 394.42 Cr. as on March 31, 2023 against Rs. 387.71 Cr as on March 31, 2022. The total debt of the company has reduced to Rs. 108.52 Cr. as on March 31 2023 against Rs. 134.77 Cr. as on March 31, 2022. The gearing (debt to equity) further stood improved at 0.28 times on March 31 2023 against 0.35 times as on March 31, 2022. SPFL follows a conservative leverage policy as reflected in its peak gearing over the years. The interest coverage ratio stood (ICR) although deteriorated but stood sufficeint at 13.80 times in FY2023 against 25.63 times in FY2022. The DSCR stood at 2.54 times and 2.24 times during the same period.
Acuité expects the financial risk profile to remain healthy over the medium term on account of healthy accretion to reserves, in absence of any significant debt-funded capex.

Weaknesses

Sequential deterioration in revenue & profitability
The operating performance has remained subdued during FY2023 and H1FY2024. The

revenues of the company declined to Rs. 389.20 Cr. in FY2023 against Rs. 431.10 Cr. in FY2022. The revenues have further witnessed deterioration to Rs.181.11 Cr. for H1FY2024 against Rs.233.24 Cr. during the corresponding H1FY2023. The decline was majorly due to a global market slowdown, influenced by stockpiling of inventory and price correction in crude derivatives products such as polyester and nylon yarns. This situation caused a decline of 11% in the number of units sold, of SPFL from 13,782 to 12,267 units. As per company the reduction was mainly due to an excess of inventory in the global market. Furthermore, the operating profit of the company also witnessed deterioration marked by decline in EBITDA margins to 15.06% in FY2023 against 20.23% in FY2022 and 24.37% in FY2021. The margins have further reduced at ~14.24% during H1FY2024. The overall EBITDA decline happened because of lower sales volume and reduced operating leverage. Overall ROCE stood significantly deteriorated at 6.93% in FY2023 against 12.79% in FY2022.
Going forward, improvement in the revenues thereby improvement in the profitability margins will remain critical towards the rating.

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 55 percent in FY2023 against ~52 percent of the total revenue in FY2022 as against ~44 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 downwards at 15.06% in FY2023 against 20.67 percent in FY2022 and 24.37 per cent in FY2021. However, on an average for last three years 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 as company also imports raw materials. 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 which serves as a mitigation against the forex risk.

Rating Sensitivities

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

All Covenants
Not Applicable.

Liquidity Position
Adequate
SPFL's liquidity is adequate marked by comfortable cushion between the cash accruals vis-à-vis repayment obligations. The NCA during FY2023 stood at Rs. 50.98 Cr. against the obligations of Rs. 17.17 Cr. Further the cash balances have stood at Rs. 6.02 Cr. in FY2023. The current ratio is adequately stood at 1.21 times during FY2023.

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, 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 and liquidity.

Other Factors affecting Rating
Not Applicable.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	389.20	431.10
PAT	Rs. Cr.	21.38	46.31
PAT Margin	(%)	5.49	10.74
Total Debt/Tangible Net Worth	Times	0.28	0.35
PBDIT/Interest	Times	13.80	25.63

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

Any Other Information
None

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
17 Mar 2023	Letter of Credit	Short Term	39.00	ACUITE A1 (Reaffirmed)
	Packing Credit	Short Term	31.00	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)
	Letter of Credit	Short Term	20.00	ACUITE A1 (Reaffirmed)
	Packing Credit	Short Term	35.00	ACUITE A1 (Reaffirmed)
	Packing Credit	Short Term	40.00	ACUITE A1 (Reaffirmed)
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 A2+ | Downgraded (from ACUITE A1)
Indusind Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A2+ | Downgraded (from ACUITE A1)
P T Bank Maybank Indonesia (Formerly, Bank International Indonesia)	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A2+ | Downgraded (from ACUITE A1)
Standard Chartered Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	39.00	ACUITE A2+ | Downgraded (from ACUITE A1)
HDFC Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A2+ | Downgraded (from ACUITE A1)
CITI Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	31.00	ACUITE A2+ | Downgraded (from ACUITE A1)
Bank of Bahrain and Kuwait	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A- | Stable | Downgraded (from ACUITE A)
DBS Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE A2+ | Downgraded (from ACUITE A1)

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022–49294017 mohit.jain@acuite.in Jaitashree Hukerikar Analyst-Rating Operations Tel: 022-49294065 jaitashree.hukerikar@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit https://www.acuite.in/faqs.htm to refer FAQs on Credit Rating.