Filatex India Limited (Revised)

January 05, 2023

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	341.08 (Reduced from 402.12)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Long-term / Short-term bank facilities	950.00 (Enhanced from 750.00)	**CARE A+; Stable/ CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)**	**Reaffirmed**
Total Facilities	**1,291.08 (₹ One thousand two Hundred ninety-one crore and eight lakh only)**		

Details of facilities in Annexure-1

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Filatex India Limited (FIL) continue to derive strength from its experienced promoters with a long track record of operations in the manmade yarn industry, FIL's established position as one the largest players in the domestic market, diversified product portfolio, established distribution network and diversified customer base, and location advantage. The ratings also factor significant improvement in its operational and financial performance during FY22 (Audited; FY refers to the period from April 01 to March 31) marked by healthy growth in sales volume and better product spreads with increasing share of value-added products in its sales-mix amidst a strong industry upcycle resulting into higher than envisaged profitability and cash accruals during the year. The ratings also take cognisance of improved debt coverage indicators and capital structure in FY22 supported by prepayment of term debt.

The above rating strengths are, however, tempered by the susceptibility of FIL's operating profitability (PBILDT) margin to adverse movement in raw material prices and foreign currency fluctuation. The ratings also remain constrained by FIL's presence in fragmented and competitive manmade yarn industry and low bargaining power against large raw material suppliers. The ratings take cognisance of expectation of significantly lower than earlier envisaged PBILDT and cash accruals in FY23 on the back of dumping of material by Chinese players impacting product spreads. CARE Ratings Limited (CARE Ratings) also notes the temporary closure of its captive thermal power plant due to unviability of own power generation on the back of sharp rise in coal prices. Going forward, savings on power cost supported by effective utilization of captive thermal power plant and/ or through Power Purchase Agreement (PPA) for hybrid power project shall remain monitorable. Furthermore, CARE Ratings continues to monitor developments with respect to income tax search conducted on the company in September 2021 and would review the ratings in case of any further material development in this regard.

CARE Ratings takes cognisance of fructification of negative rating sensitivities pertaining to PBILDT margin and total debt/ PBILDT (net of cash and liquid investments) which are expected to remain below 12% and above 1.5x respectively in FY23 which is an abruption due to temporary impact on its operating profitability. However, PBILDT margin is expected to improve sequentially to over 12% from Q2FY24 onwards.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant volume driven increase in total operating income (TOI) through greater geographical diversification aided by improvement in PBILDT per ton leading to PBILDT margin of over 15% while maintaining its healthy ROCE on a sustained basis
- TOL/TNW (net of cash and liquid investment) remaining below 0.50x on a sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- PBLIDT margin of the company remaining below 12% along with moderation in its debt coverage indicators on a sustained basis
- Deterioration in TOL/ TNW (net of cash and liquid investment) beyond 1x and total debt to PBILDT (net of cash and liquid investment) of more than 1.5x on a sustainable basis

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters with a long track record of operations: The company is promoted by Bhageria family which has an experience of over four decades in trading and manufacturing of synthetic filament yarn. Mr Madhu Sudhan Bhageria, Chairman and Managing Director, has experience of nearly four decades in the industry. He is supported by his brothers - Mr. Purrshottam Bhageria and Mr. Madhav Bhageria who are Joint Managing Directors in the company. The management team of the company is well qualified with experience in related field. The promoters from time to time had infused funds to support the business which reflects the resourcefulness of the promoters and their commitment to the company's business.

One of the largest players in domestic manmade yarn industry with diversified product portfolio: FIL is one of the leading players in the manmade yarn industry having presence across the value chain. The company's product portfolio includes polyester chips, Partially Oriented Yarn (POY), Fully Drawn Yarn (FDY), Draw Textured Yarn (DTY), polypropylene yarn, and narrow woven fabrics. Over the years, company has gradually increased share of value-added products through forward integration. The contribution of texturized yarns and fabric has increased over the years from 63% in FY20 to 77% in FY22 which has resulted in improvement in its PBILDT margin and PBILDT per ton. Further, the company expanded its POY capacity by 120 Ton per Day (TPD) during Q2FY23 which shall further increase the share of value-added products. Moreover, FIL is also working on a pilot project for recycling any form of polyester waste into chips. Depending upon the success of the pilot project, FIL may plan to implement a large sized commercial project for recycling in future.

Location advantage with well-established distribution network and diversified customer base: The company's plant at Dahej and Dadra enjoy the benefit of being in proximity to major synthetic yarn consumption centres of Mumbai and Surat as well as to major crude oil-based raw material suppliers. Moreover, proximity to seaport helps in reducing the freight cost.
The company has a network of 170-180 dealers located at various strategic locations in the domestic market. Moreover, FIL sells through agents in the export market and derives around 10% of its revenue from exports. Further, promoter's experience has helped the company to establish long-standing relationship with its customers. FIL majorly receives repeat orders from its existing clients which demonstrates its relations with customers. Furthermore, FIL has diversified customer base as top 10 customers contribute 25-30% of total sales.

Significant improvement in operational and financial performance during FY22: The operational performance of the company improved significantly during FY22 on the back of healthy growth in sales volume and higher share of value-added products in its sales-mix. It was also aided by the industry upcycle. FIL's TOI grew by over 70% during FY22 on the lower base of FY21 backed by 30% growth in sales volume along with increase in average sales realisation of its products. PBILDT and PAT of FIL grew by 51% and 82% during FY22 over FY21 with growth in sales volume apart from better spread on its products. Further, company's PBILDT margin remained at around 14% during FY22. Despite lower PBILDT margin, its PBILDT per ton has improved to around Rs.16,000 in FY22 from Rs.13,600 in FY21. Also, PBILDT per ton has been improving due to increasing contribution from value added products in overall sales-mix and higher spreads on the back of industry upcycle.
Capital structure of the company marked by overall gearing ratio and TOL/ TNW ratio improved during FY22 and remained at 0.42x (PY: 0.84x) and 0.73x (PY:1.28x) respectively as on March 31, 2022 due to reduction in total debt and healthy accretion of profit to its reserves. During FY22, FIL prepaid loans of nearly Rs.150 crore (FY21: Rs.130 crore) apart from scheduled repayments. FIL's ROCE remained healthy at 33% during FY22 (FY21: 22%) supported by improvement in operating performance and reduction in debt level. During FY22, PBIDLT interest coverage ratio and net debt to PBILDT also improved and stood comfortable at 15.90 (PY: 6.06x) and 0.83x (PY:1.78x) respectively.
In May 2022, FIL bought back 42.50 lakh equity shares of the company at Rs.140 per share aggregating to around Rs.59.50 crore due to which the net worth of the company is expected to decline to that extent compared to March 31, 2022. However, despite reduction in net worth, the capital structure of the company marked by TOL/TNW is expected to remain comfortable due to low capex intensity along with efficient working capital management. The quantum of capex towards any organic and inorganic growth opportunities and funding of the same will remain a key rating sensitivity.

Liquidity: Strong

FIL has strong liquidity marked by current ratio of 1.53x as on March 31, 2022 and healthy cash flow from operations. FIL generated cash flow from operations of Rs.257 crore during FY22 (FY21: Rs.319 crore). Moreover, with prepayment of term loans of over Rs.250 crore during FY21-FY22, the company has relatively low term debt repayment obligation of Rs.50-75 crore per annum during FY23-FY25 as against envisaged cash accruals in the range of ₹200-400 crore during the said period. FIL's operating cycle has also remained lean at 15 days during FY22 backed by low inventory level and efficient debtor collection. Aggregate utilization of fund based and non-fund based working capital limit stood at 87% for last 12 months ended September

2022. FIL majorly avails non fund based limits for raw material procurement.
Capacity expansion besides routine capex will entail total cost of nearly Rs.150 crore during FY23 which is being funded through term loan of Rs.58 crore and balance through internal accruals. Furthermore, despite buyback of equity shares aggregating Rs.59.50 crore in May 2022, FIL's liquidity is expected to remain strong backed by strong generation of cash flow from operations and relatively lower capex.

Key rating weaknesses

Decline in operating profitability in H1FY23 and expectation of significantly lower than earlier envisaged profitability and cash accruals in FY23: Low domestic consumption in China due to its zero-covid policy forced Chinese polyester manufacturers to dump material globally including India at low prices resulting into pressure on margins of domestic industry players during H1FY23. This coupled with inventory loss due to decline in raw material prices led to decline in PBILDT margin to 6.25% during H1FY23 (H1FY22: 14.08%). With continued high import from China, pressure on PBILDT margin is expected to remain in near term and subsequently, PBILDT and cash accruals are expected to remain significantly lower than earlier envisaged during FY23. However, management expect sequential improvement in PBILDT margin on quarter-on-quarter basis and PBILDT margin is expected to gradually improve over 12% from Q2FY24 onwards. Despite temporary impact on profitability, the debt coverage indicators marked by PBILDT interest coverage, debt to PBILDT and DSCR are expected to remain healthy.
FIL has also increased import of some raw materials due to limited domestic availability which entail higher credit period and are secured by Letter of Credit (LC). With moderation in PBILDT and increase in debt level (including LC backed creditors), FIL's net debt/ PBILDT is expected to remain above 1.5x in FY23. With improvement in operating profitability, net debt/ PBILDT is expected to improve gradually to below 1.5x in medium term. Moreover, having relatively higher credit period available under LC, net-working capital cycle and liquidity improved. The company had a cash and liquid investment of Rs.239 crore as on September 30, 2022. During October 2022, FIL prepaid around Rs.30 crore of term loan apart from schedule repayment supported by its healthy cash flow from operations.

Exposure to volatility in raw material prices: The major raw materials for FIL are Purified Terephthalic Acid (PTA) and Mono-Ethylene Glycol (MEG) which being derivatives of crude oil are susceptible to frequent volatility in crude oil prices. The raw material cost constitutes nearly 85% of its total cost of production. Hence, any adverse volatility in the raw material prices may affect the company's operating margin. However, having long-term relationship with suppliers, FIL receives better pricing and credit terms as compared to its competitors. Further, FIL has been able to gradually pass on fluctuation in raw material prices to its customers and maintain its PBILDT margins as evident from the company's performance in the past two years ended FY22. Raw material price fluctuation is also mitigated to a certain extent due to FIL's integrated operations.

Foreign exchange fluctuation risk: FIL is exposed to foreign exchange fluctuation risk on account of foreign currency borrowings and import dependency for part of its raw material requirement. The foreign currency borrowings of the company remain unhedged. Though, the company derives nearly 10-12% of its overall sales from export which acts as a natural hedge to an extent. Also, it hedges part of forex exposure through forwards depending upon the market condition. Though, FIL remain exposes to the extent of the uncovered portion and the timing difference on import and export. During FY22, FIL reported forex gain of Rs.10.10 crore towards foreign exchange fluctuation as against a loss of Rs.13.79 crore in FY21.

Fragmented and competitive industry: FIL operates in the competitive and fragmented manmade yarn industry marked by presence of large number of organised as well as unorganised players due to low entry barriers. Intense competition limits the pricing abilities of the players in the industry. Moreover, the industry is characterised by players having low bargaining power against large suppliers. Furthermore, presence of dominant and integrated players with better bargaining power limits the pricing flexibility of players operating in the segment.

Temporary closure of captive thermal power plant: FIL had set up a 30 Mega Watt (MW) captive thermal power plant in FY22 with an aim to fulfil majority of its power requirement captively. The project was commissioned in Q2FY22 but the same is not operational at present due to its unviability with sharp rise in coal prices. Despite un-utilization of this large sized asset, FIL was able to deliver higher than envisaged operating profitability and ROCE. Moreover, FIL has entered into agreement with Fourth Partner Energy Private Limited for acquisition of 26% equity stake in hybrid (wind and solar) power project with an investment of Rs.10.26 crore along with 25 years of PPA for around 50 million units @ Rs.3.65/ unit. Going forward, savings on power cost supported by effective utilization of captive thermal power plant and/ or through PPA for proposed hybrid power project shall remain monitorable.

Analytical approach: Standalone

Applicable criteria

Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's policy on default recognition
Policy on Withdrawal of Ratings
Financial ratios – non-financial sector
Criteria for short-term instruments
Rating Methodology - Manufacturing Companies
Rating Methodology – Manmade Yarn Manufacturing
Liquidity analysis of non-financial sector entities

About the company

Incorporated in August 1990, FIL was promoted by the Bhageria family who have experience of over four decades in manufacturing and trading of synthetic filament yarn. The company is engaged in manufacturing of polyester and polypropylene multifilament yarn. It has also set up a 30 MW captive thermal power plant. The manufacturing facilities of FIL is located at Dadra (U. T. of Dadra & Nagar Haveli) and Dahej (Gujarat) with an installed capacity (net of captive use) of 51,800 MTPA for polyester chips, 55,800 MTPA for POY, 1,25,800 MTPA for FDY, 1,42,800 for DTY and 2,400 MTPA for grey fabric as on March 31, 2022.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total operating income	2,230	3,845	2,204
PBILDT	351	548	138
PAT	166	303	69
Overall gearing (times)	0.84	0.42	NA
Interest coverage (times)	5.96	15.90	11.44

A: Audited; UA: Un-audited; NA: Not available; Financials have been classified as per CARE Ratings' standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-External Commercial Borrowings	-	-	-	March 2031	212.54	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	-	July 2029	128.54	CARE A+; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	200.00	CARE A+; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	750.00	CARE A+; Stable / CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-External Commercial	LT	212.54	CARE A+; Stable	1)CARE A+; Stable (22-Jun-22)	1)CARE A; Stable (15-Sep-21)	-	-

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
	Borrowings					2)CARE A; Stable (23-Jul-21)		
2	Fund-based - LT-Term Loan	LT	128.54	CARE A+; Stable	1)CARE A+; Stable (22-Jun-22)	-	-	-
3	Fund-based - LT/ ST-Working Capital Limits	LT/ ST	200.00	CARE A+; Stable/ CARE A1+	1)CARE A+; Stable/ CARE A1+ (22-Jun-22)	-	-	-
4	Non-fund-based - LT/ ST-BG/LC	LT/ ST	750.00	CARE A+; Stable/ CARE A1+	1)CARE A+; Stable/ CARE A1+ (22-Jun-22)	-	-	-
5	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (04-Apr-19)
6	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (04-Apr-19)
7	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (04-Apr-19)
8	Fund-based - ST-Term loan	ST	-	-	-	-	-	1)Withdrawn (04-Apr-19)

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:

Name of the Instrument	Detailed explanation
A. Financial covenants	NA
I	
Ii	
B. Non-financial covenants	NA
I	
Ii	

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-External Commercial Borrowings	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-Working Capital Limits	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple

Note on complexity levels of the rated instrument: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities please click here

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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