Filatex India Limited

November 10, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	275.14 (Reduced from 301.94)	CARE A+; Stable	Reaffirmed
Long-term/Short-term bank facilities	1,000.00 (Enhanced from 989.14)	CARE A+; Stable/ CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

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, as well as its established position as one the largest players in the domestic market. The ratings also derive strength from FIL's diversified product portfolio, established distribution network and diversified customer base, location advantage, and improvement in the scale of operations. The ratings also take into account continued healthy capacity utilisation and comfortable capital structure, debt coverage indicators, and strong liquidity.

The above rating strengths are, however, tempered by lower-than-envisaged profitability and cash accruals during FY23 (refers to the period from April 01 to March 31) and H1FY24 on the back of significant dumping of materials by Chinese players, thereby impacting product spreads. The ratings are also constrained due to the susceptibility of FIL's operating profitability (profit before interest, lease rentals, depreciation and taxation (PBILDT) margin to adverse movements in raw material prices and foreign currency fluctuations, presence in a fragmented and competitive manmade yarn industry, and low bargaining power against large raw material suppliers.

CARE Ratings Limited (CARE Ratings) also takes cognisance of the fructification of the negative rating sensitivity pertaining to net debt/PBILDT, which remained above 1.5x in FY23 and H1FY24, which is an aberration due to temporary impact on its operating profitability. However, the PBILDT margin is expected to improve to around 8-10% from H2FY24 with implementation of the mandatory Bureau of Indian Standard (BIS) certification for polyester yarn from October 05, 2023.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant volume-driven increase in total operating income (TOI) through greater geographical diversification aided by improvement in PBILDT per tonne, leading to a PBILDT margin of over 15% and return on capital employed (ROCE) of around 25% on a sustained basis.
- Total outside liabilities (TOL)/tangible net worth (TNW) (net of cash and liquid investments) remaining below 0.50x on a sustained basis.

Negative factors

- ROCE of the company remaining below 17-18% on a sustained basis.
- Deterioration in TOL/TNW (net of cash and liquid investments) beyond 1x and net debt to PBILDT of more than 1.5x.

Analytical approach: Standalone

Outlook: Stable

FIL is expected to continue to benefit from its established market position and long-standing relationships with customers. Furthermore, FIL is likely to maintain its comfortable financial risk profile supported by healthy cash flow generation, low term debt repayment obligations, and absence of major debt-funded capex plans.

Detailed description of the key rating drivers

Key strengths

One of the largest players in the domestic manmade yarn industry with diversified product portfolio

FIL is one of the leading players in the manmade yarn industry having a presence across the value chain, with an overall market share of around 8% in the domestic polyester yarn industry. 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, the company has gradually increased its share of value-added products through forward integration. The overall capacity utilisation of FIL, which improved from 89% in FY22 to 96% in FY23, further improved to nearly 100% in H1FY24.

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

Despite the cheap imports from China, the sales volumes of industry players were not impacted significantly in FY23 and H1FY24.

FIL started operating its captive power plant (CPP) from March 2023. Moreover, it invested around ₹11 crore for the acquisition of 26% equity stake in a hybrid power project of 10.8 MW under the state government policy of CPP in FY23. The management expects quarterly savings of at least ₹8 crore from these energy sources compared to the grid power, which should also support its profitability going forward.

Post success of its pilot project, FIL plans to establish a commercial project for recycling polyester waste into chips with a capacity to produce 20,000 metric tonne per annum (MTPA). The proposed capex is expected to entail a cost of around ₹150 crore, to be funded through a mix of term debt and internal accruals. The management expects production to start by June 2025. The company has a patent for recycling PET waste for 20 years w.e.f. June 2021.

Location advantage with a well-established distribution network and diversified customer base

The company's plants 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, the promoter's experience has helped the company to establish long-standing relationship with its customers. FIL mainly receives repeat orders from its existing clients, which demonstrates its strong relations with its customers. Furthermore, FIL has a diversified customer base as the top 10 customers contribute around 25-30% of its total sales which is expected to continue in medium term.

Experienced promoters with a long track record of operations

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

Large scale of operations along with comfortable capital structure and satisfactory debt coverage indicators

FIL's scale of operations, marked by its total operating income (TOI) grew at a compounded annual growth rate (CAGR) of 20% during FY17-FY22 and by 12% to around ₹4,300 crore during FY23, backed by growth in sales volumes. FIL's sales volumes of polyester yarn grew by around 15% in FY23 over FY22. The sales volume of polyester yarn is likely to grow at around 6-8% over FY24-FY26, supported by steady domestic demand.

As on March 31, 2023, FIL had net-worth base of around ₹1,100 crore and total debt of ₹644 crore resulting into comfortable overall gearing of 0.59x and TOL/TNW of 0.79x. Moreover, due to decline in the operating profitability during FY23, the debt coverage indicators, i.e., net debt to PBILDT deteriorated, albeit continued to remain satisfactory at 2.53x. Net debt to PBILDT stood at 2.81x in H1FY24 due to continued low operating profitability. However, with the expectation of significant improvement in operating profitability from H2FY24 along with largely stable debt profile, CARE Ratings expects the net debt to PBIDLT to improve to below 1.5x in the near to medium term.

Liquidity: Strong

FIL has strong liquidity marked by current ratio of 1.20x as on March 31, 2023 and healthy cash flow from operations. FIL generated cash flow from operations of ₹369 crore during FY23 (FY22: ₹257 crore). Moreover, with prepayment of term loans of over ₹310 crore during FY21-FY23, the company has relatively low term debt repayment obligations of ₹35-60 crore per annum during FY24-FY26 as against envisaged cash accruals in the range of ₹250-400 crore during the mentioned period. FIL's operating cycle has also remained lean at 15 days during FY23 backed by low inventory level and efficient debtor collections. The aggregate utilisation of the fund-based and non-fund-based working capital limit stood at 75% for the last 12 months ended September 30, 2023. FIL mainly avails non-fund-based limits for raw material procurement. Furthermore, FIL's liquidity is expected to remain strong backed by strong generation of cash flow from operations and relatively lower capex.

Key weaknesses

Lower than envisaged profitability and cash accruals during FY23 and H1FY24

Low domestic consumption in China due to its zero-COVID-19 policy forced Chinese polyester manufacturers to dump materials globally including India at low prices resulting in pressure on margins of domestic industry players including FIL during FY23. This, coupled with inventory losses due to decline in raw material prices, led to decline in PBILDT margin of FIL to 5.43% during FY23 (FY22: 14.24%). With continued high import from China, PBILDT margin continued to remain lower than envisaged at 4.85% during H1FY24. However, the PBILDT margin is expected to improve significantly from H2FY24 onwards with implementation of the BIS certification which should restrict the cheaper imports from China. As informed by the management, FIL has already witnessed significant improvement in its PBILDT margin during October 2023, which is expected to continue during the remaining period of FY24. The PBILDT margin is also expected to be aided by savings in power cost from its coal-based CPP and hybrid power plant.

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 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 relationships with suppliers, FIL receives better pricing and credit terms as compared to its competitors. Furthermore, FIL has been able to gradually pass on fluctuations in raw material prices to its customers and maintain its PBILDT margins, except for FY23 and H1FY24, when cheaper Chinese imports impacted sales realisations and, in turn, the PBILDT margins of domestic players. CARE Ratings notes that the 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 the foreign exchange fluctuation risk on account of foreign currency borrowings and import dependency for part of its raw material requirements. The foreign currency borrowings of the company are partially hedged while the import of raw material is completely hedged. Furthermore, the company derives nearly 10-12% of its overall sales from export, except for FY23, when there was a natural hedge to an extent. However, FIL remains exposed to the extent of the uncovered portion and the timing difference on imports and exports. During FY23, FIL reported a forex loss of ₹11.55 crore towards foreign exchange fluctuations as against a gain of ₹10.10 crore in FY22, mainly due to sharp movements in forex rates.

Fragmented and competitive industry

FIL operates in the competitive and fragmented manmade yarn industry marked by the presence of a 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.

Environment, social, and governance (ESG) risks

Parameter	Compliance and action by the company
Environment	• Manmade yarn manufacturers face environment risks related to compliance with stringent pollution-control norms set by the regulatory authorities w.r.to air and water pollution due to crude-based raw materials. Also, they are exposed to the proper disposal of hazardous and non-hazardous solid waste, which gets generated during the manufacturing process. • FIL has invested in 10.8 MW of hybrid renewable plant for captive consumption apart from nearly 2 MW of renewable power plants. • FIL receives back packaging materials from its customers and recycles and reuses them. Furthermore, with effluent treatment plants, the company also follows a zero-liquid discharge policy.
Social	• FIL ensures a safe and secure work environment for people, enabling them to focus on excellence in performance and ensure necessary compliances. • FIL also invests in a range of initiatives that target the current needs of the local communities as well as their future development.
Governance	• The company is managed by a professional board of directors, who have extensive experience in the industry. The board comprises eight directors, including one woman director. The independent directors constitute 50% of the total number of directors. • FIL has an audit committee, nomination and remuneration committee, stakeholders relationship committee, corporate social responsibility committee, and risk management committee.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manmade Yarn Manufacturing
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Textiles	Textiles and apparels	Other textile products

Incorporated in August 1990, FIL was promoted by the Bhageria family, having an experience of over four decades in manufacturing and trading of synthetic filament yarn. The company is engaged in the manufacturing of polyester and polypropylene multifilament yarn. It has also set up a 30-MW captive thermal power plant. The manufacturing facilities of FIL are located at Dadra (UT of Dadra & Nagar Haveli) and Dahej (Gujarat) with an installed capacity (net of captive use) of 9,000 MTPA for polyester chips, 93,240 MTPA for POY, 163,080 MTPA for FDY, 130,320 for DTY, and 2,160 MTPA for grey fabric as on March 31, 2023.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	H1FY24 (UA)
Total operating income	3,845	4,306	2,185
PBILDT	548	234	106
PAT	303	90	41
Overall gearing (times)	0.42	0.59	0.63
Interest coverage (times)	15.90	5.99	7.33

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-External commercial borrowings	-	-	-	March 2031	185.28	CARE A+; Stable
Fund-based - LT-Term loan	-	-	-	July 2029	89.86	CARE A+; Stable
Fund-based - LT/ ST-Working capital limits	-	-	-	-	150.00	CARE A+; Stable/ CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	850.00	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 2023-2024	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
1	Fund-based - LT-External commercial borrowings	LT	185.28	CARE A+; Stable	1)CARE A+; Stable (08-Aug-23)	1)CARE A+; Stable (05-Jan-23) 2)CARE A+; Stable (22-Jun-22)	1)CARE A; Stable (15-Sep-21) 2)CARE A; Stable (23-Jul-21)	-
2	Fund-based - LT-Term loan	LT	89.86	CARE A+; Stable	1)CARE A+; Stable (08-Aug-23)	1)CARE A+; Stable (05-Jan-23) 2)CARE A+; Stable (22-Jun-22)	-	-
3	Fund-based - LT/ ST-Working capital limits	LT/ ST*	150.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable/ CARE A1+ (08-Aug-23)	1)CARE A+; Stable/ CARE A1+ (05-Jan-23) 2)CARE A+; Stable/ CARE A1+ (22-Jun-22)	-	-
4	Non-fund-based - LT/ ST-BG/LC	LT/ ST*	850.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable/ CARE A1+ (08-Aug-23)	1)CARE A+; Stable/ CARE A1+ (05-Jan-23) 2)CARE A+; Stable/ CARE A1+ (22-Jun-22)	-	-

*Long term/Short term.

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

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-External commerciall 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

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: 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.

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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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