SRF Altech Limited

December 19, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	365.00 (Reduced from 400.00)	CARE AA-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating to the long-term bank facilities of SRF Altech Limited (SAL) primarily continues to factor in the strong parentage of the company, as it is a wholly-owned subsidiary of SRF Limited (SRF). The rating also factors in the strong managerial and operational support it derives from SRF along with its stated position to support subsidiary's debt obligations in the form of a letter of support (LoS) to the lenders of SAL.

SAL is a project stage entity established by SRF to undertake the aluminium foil manufacturing facility in Madhya Pradesh which would be complementary to the parent's existing line of packaging film business (PFB) majorly comprising bi-axially oriented polyethylene terephthalate (BOPET) films and bi-axially oriented polypropylene (BOPP) films. Apart from the strong parentage, SAL's credit risk profile is strengthened by the project's advanced stage of execution, with commercial operations estimated to be commenced by end of December 2023.

These strengths are partially offset by moderate demand risk marked by initial ramping-up of operations considering intensely competitive aluminium foil business as well as any change in anti-dumping duty stance by targeted export countries.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the credit risk profile of the parent company.
- Significant ramp-up in the scale of operations such that meaningfully contributing to the turnover and profit before interest, lease rentals, depreciation and taxation (PBILDT) of the parent.

Negative factors

- Deterioration in the credit profile of the parent.
- Any change in stance on supporting SAL by the parent company.

Analytical approach

Standalone. The rating factors in strong operational, management and financial linkages with the parent entity (SRF) owing to SAL being a 100% subsidiary of SRF along-with common promoter directors and shared brand name. Furthermore, SRF has provided LoS to the banker of SAL.

Moreover, for analysing SRF, its Consolidated financials are considered, which also incorporates the support to be extended to SAL. The list of subsidiaries is as mentioned in Annexure-6.

Outlook: Stable

The 'stable' outlook reflects that SAL will continue to derive benefit from the operational synergies and financial flexibility of its strong parent while improving its business profile over the medium-term post commencement of commercial operations.

Detailed description of the key rating drivers:

Key strengths

Strong parentage, experienced promoter group and professionally-qualified management

SAL is a wholly-owned subsidiary of SRF, a diversified conglomerate having presence majorly in chemicals business (CB), packaging film business (PFB) and technical textiles business (TTB). SRF has built strong competitive position in majority of its area of operations over the years having clocked consolidated net sales of ₹14,592 crore and PBILDT of ₹3,501 crore in FY23 (refers to the period from April 01 to March 31). In H1FY24 (refers to the period from April 01 to September 30), SRF continued its healthy performance having reported net sales of ₹6,410 crore and PBILDT of ₹1,363 crore. Ashish Bharat Ram, the Chairman & Managing Director, and Kartik Bharat Ram, the Joint Managing Director of SRF, both are present on the board of SAL, and have extensive industry experience. SRF has appointed separate vertical heads for each of its business segments. Furthermore, CA Rahul Jain is the President & Chief Financial Officer of SRF, having 20+ years of experience in accounting, auditing and financial planning.

CARE Ratings expects SAL to accrue the benefits of its strong parentage (being 100% held by SRF) and experienced promoters and management in ramping-up of operations post commissioning of the project.

Execution and operational support by the parent

SAL's project execution risk was significantly moderated on account of in-house team of SRF overlooking establishment of aluminium foil manufacturing capacity. This has been demonstrated by the advanced stage of execution of the project as on

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

September 30, 2023, and expected commercialisation by the end of December 2023. Till September 2023, SAL has incurred expenditure of around ₹518 crore on the project (total estimated project cost of around ₹530 crore) and currently undertaking trial runs. CARE Ratings makes a note that the scope of the project had been expanded over the last 12 months.
Furthermore, considering aluminium foil would be a complementary product to BOPP and BOPET, SAL may leverage the existing well-established marketing and distribution network of its parent company. Also, its upcoming manufacturing facility in Madhya Pradesh is about 60 km away from the parent's existing facility. SRF has extended letter of support to the term loan advanced to SAL by its lender, thus exhibiting financial support.

Key weaknesses

Moderate demand risk

SRF is entering new line of product in PFB through aluminium foil manufacturing via SAL. Though having extensive presence in PFB and leveraging its existing clientele, the company may face headwinds in initial product off-take. The global aluminium foil industry is intensely competitive on account of ample available production capacity, particularly from China and Southeast Asian nations. However, SAL is expected to adopt technology allowing it to manufacture thinner gauge of aluminium foils, providing it distinctive edge from the unorganized players. But the same will remain key monitorable over the medium term.

Regulatory risk - Vulnerability to change in anti-dumping duty stance by targeted export countries

SAL is targeting USA and European markets for its export sales driven primarily by the anti-dumping duty levied by these economies for imports from China. However, any moderation in this stance by these economies may lead to competition from Chinese manufacturers and thus increasing cost competition.

Liquidity: Adequate

SAL is a wholly-owned subsidiary of SRF, which has provided letter of support to the lender of SAL on servicing its debt obligations. The liquidity of SAL is adequate as it draws comfort from the liquidity profile of SRF which is strong. The company has term loan debt and scheduled repayment obligations will start from June 2024 with annual principal repayment obligation of around ₹18.25 crore. However, considering initial stages of operations, this is expected to be supported through funds infused from the parent. Recently the management has notified that SRF Limited has infused equity of Rs.355 crore in second week of December 2023 out of which term loan of Rs.150 crore has been repaid.

Strong liquidity of parent (SRF)

SRF has strong liquidity backed by its robust gross cash accrual (GCA) and cash flow from operations (CFO) vis-à-vis repayment obligation. SRF had generated GCA of ₹2,784 crore and is estimated to moderate in FY24 on account of headwinds in various business segments. However, SRF's repayment obligation, ₹517 crore in FY24 and ₹1,090 crore in FY25, are expected to be adequately covered by its CFO. Furthermore, it has healthy cash & cash equivalents of ₹1,098 crore as on March 31, 2023 and ₹943 crore as on September 30, 2023. The parent has comfortable overall gearing and current ratio allowing headroom to raise debt in case required.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Project stage companies
Policy on Withdrawal of Ratings

About the company, SAL, and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & mining	Diversified metals	Diversified metals

SAL is a wholly-owned subsidiary of SRF, a diversified chemical conglomerate. SAL is establishing manufacturing plant for aluminium foil in Jetapur, Madhya Pradesh, with manufacturing capacity of 21,000 metric tonnes per annum. The project, costing about ₹530 crore, is expected to commence its commercial operations by end of December 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	0.00	0.00
PBILDT	-2.75	-3.09
PAT	-2.28	-3.68
Overall gearing (times)	0.00	202.61
Interest coverage (times)	-486.84	-1.60

A: Audited; Note: 'the above results are latest financial results available'

About the parent (SRF)

SRF, incorporated in 1966, has grown from being a single unit tyre cord manufacturer into a leading, professionally managed, diversified chemical conglomerate. Their products are used in varied applications and segments from tyres to air conditioners, mines to cricket grounds, automotive to household appliances, and food packaging to raw materials for pharmaceuticals. The company is currently in chemical business (CB), packaging films business (PFB), and technical textiles business (TTB) business segments.

Brief Financials (₹ crore) - Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)*
Total operating income	12,506	14,838	6,557
PBILDT	3,188	3,501	1,363
PAT	1889	2162	660
Overall gearing (times)	0.48	0.50	0.46
Interest coverage (times)	27.50	17.09	9.40

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
#Bifurcation of various lines items is not available for H1FY24, as only abridged financials are published. Hence, certain figures may not be like to like vis a vis FY22 and FY23 financials.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of 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-Term loan		-	-	31-12-2028	365.00	CARE AA-; Stable

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-Term loan	LT*	365.00	CARE AA-; Stable	-	1)CARE AA-; Stable (02-Dec-22)	-	-

*Long term

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

Name of the Instrument	Detailed Explanation
A. Non-financial covenants – IndusInd Bank Ltd	
External rating	Rating downgrade below A- shall be an Event of Default. On the occurrence of any event of default, the lender will have the right, without any obligation to do so, demand prepayment of facility and/or enforce security and/or right to change the terms and conditions for this facility, including demand for additional security, increase pricing, etc.

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

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

Annexure-6: List of subsidiaries consolidated

Name of the subsidiary	Shareholding structure as on September 30, 2023
SRF Holiday Home Limited	Wholly-owned subsidiary
SRF Altech Limited	Wholly-owned subsidiary
SRF Employees Welfare Trust (Controlled Trust)	Wholly-owned subsidiary
SRF Global BV – Netherlands	Wholly-owned subsidiary
SRF Europe Kft (100% subsidiary of SRF Global BV) – Hungary	Wholly-owned step-down subsidiary
SRF Industries (Thailand) Limited (100% subsidiary of SRF Global BV) – Thailand	Wholly-owned step-down subsidiary
SRF Industex Belting (Pty) Limited (100% subsidiary of SRF Global BV) – South Africa	Wholly-owned step-down subsidiary
SRF Flexipak (South Africa) (Pty) Limited (100% subsidiary of SRF Global BV) – South Africa	Wholly-owned step-down subsidiary

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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