

Filatex India Limited

July 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	-	-	Reaffirmed at CARE A+; Stable/ CARE A1+ and Withdrawn
Long-term/Short-term bank facilities	-	-	Reaffirmed at CARE A+; Stable and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed and withdrawn the outstanding rating of 'CARE A+; Stable/ CARE A1+' assigned to the bank facilities of Filatex India Limited (FIL), with immediate effect. This action has been taken at the request of FIL and 'No Objection Certificate' received from lenders that has extended facilities rated by CARE Ratings.

Ratings continue to derive strength from its experienced promoters with a long track record of operations in the manmade yarn industry, and its established position as one of the largest players in the domestic market. Ratings also derive strength from FIL's diversified product portfolio, established distribution network and diversified customer base, location advantage, and improved scale of operations supported by continued healthy capacity utilisation and stable domestic demand. Ratings also take into account FIL's financial risk profile marked by comfortable capital structure and debt coverage indicators, and strong liquidity.

However, ratings continue to remain constrained on account of lower-than-expected profitability and cash accruals in FY23 and FY24 (refers to April 01 to March 31) due to significant dumping of materials by Chinese players, thereby impacting product spreads. Ratings are also constrained due to the susceptibility of FIL's PBILDT (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 also takes cognisance of the fructification of the negative rating sensitivities pertaining to return on capital employed (ROCE), which remained below 17% and net debt/PBILDT, which remained above 1.5x in FY24. This was due to temporary impact on FIL's operating profitability. Net debt/ PBILDT improved substantially to 1.69x in FY24 (FY23: 2.53x) with lower debt level and improvement in its PBILDT margins in H2FY24 on the back of implementation of the mandatory Bureau of Indian Standard (BIS) certification for polyester yarn from October 05, 2023, which restricted cheaper imports from China.

Analytical approach: Standalone

Outlook: Stable

Detailed description of key rating drivers:

Key strengths

One of largest players in 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 gradually increased its share of value-added products through forward integration. FIL's overall capacity utilisation improved to around 96% in FY23 and further improved to nearly 100% in FY24.

FIL started operating its captive power plant (CPP) from March 2023. It has 26% equity stake in a hybrid power project of 10.8 MW under the state government policy of CPP in FY23, which supports its profitability. Post the success of its pilot project, FIL plans to establish a commercial project for recycling polyester waste into chips with a capacity to produce 26,000 metric tonnes per annum (MTPA). The proposed capex is expected to entail a cost of around ₹300 crore, to be funded through a mix of term debt and internal accruals. 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 and to major crude oil-based raw material suppliers. Proximity to seaport helps in reducing freight cost.

The company has a network of 170-180 dealers across strategic locations in the domestic market. The promoter's experience has helped the company to establish long-standing relationships with its customers. FIL mainly receives repeat orders from its existing clients, which demonstrates its strong relationships with its customers. FIL has a diversified customer base as top 10 customers contribute around 25-30% of its total sales.

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

Experienced promoters with a long track record of operations

The company is promoted by the Bhageria family, which has 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 company's management team is well-qualified with experience in the related field. On a timely basis, promoters infused funds to support the business, which reflects their resourcefulness and commitment to the company's business.

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

FIL's scale of operations, marked by its total operating income (TOI) remained largely stable at ₹4,286 crore in FY24 (FY23: ₹4,306 crore). Despite continued inflow of cheaper imports from China, sales volumes grew in FY24 over FY23 supported by healthy domestic demand.

As on March 31, 2024, FIL had net worth base of around ₹1,200 crore and total debt of ₹407 crore resulting into comfortable overall gearing of 0.34x and total operating liabilities to total net worth (TOL/TNW) of 0.62x as on even date. Debt coverage indicators marked by net debt to PBILDT continued to remain satisfactory at 1.69x during FY24 (FY23: 2.53x).

Liquidity: Strong

FIL has strong liquidity marked by current ratio of 1.37x as on March 31, 2024, and healthy cash flow from operations. With prepayment of term loans of over ₹310 crore in FY21-FY23, the company has relatively low term debt repayment obligations in the near term as against envisaged cash accruals. FIL's operating cycle has also remained lean at 12 days in FY24 (FY23: 15 days) backed by low inventory level and efficient debtor collections. Aggregate utilisation of 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. FIL's liquidity is expected to remain strong backed by strong generation of cash flow from operations.

Key weaknesses**Lower than envisaged profitability and cash accruals in FY23 and FY24**

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 in FY23 and H1FY24. This, coupled with inventory losses due to decline in raw material prices, led to decline in PBILDT margin of FIL to 5.43% in FY23 (FY22: 14.24%). With implementation of mandatory Bureau of Indian Standard (BIS) certification for polyester yarn from October 05, 2023, imports from China witnessed reduction which along with savings in power cost, supported improvement in PBILDT margin to 6.62% in H2FY24 (H1FY24: 4.52%). However, profitability remained lower than envisaged in FY24 due to dumping of cheaper polyester fabric from China, leading to lower-than-envisaged increase in selling prices by industry players.

Exposure to volatility in raw material prices

FIL's major raw materials 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 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. 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 FY24, when cheaper Chinese imports impacted sales realisations and, in turn, PBILDT margins of domestic players. CARE Ratings notes that 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 requirements. The company's foreign currency borrowings are partially hedged, while import of raw material is completely hedged. The company derives nearly 10-12% of its overall sales from export, except for FY23, when there was a natural hedge to an extent. FIL remains exposed to the extent of the uncovered portion and the timing difference on imports and exports. In FY24, FIL reported a forex loss of ₹2.77 crore (FY23: ₹13.46 crore) towards foreign exchange fluctuations as a part of its borrowing cost.

Fragmented and competitive industry

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

Environment, social, and governance (ESG) risks

Parameter	Compliance and action by the company
Environment	<ul style="list-style-type: none"> 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. With effluent treatment plants, the company also follows a zero-liquid discharge policy.
Social	<ul style="list-style-type: none"> 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 and their future development.
Governance	<ul style="list-style-type: none"> 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

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Manmade Yarn-Methodology](#)

[Financial Ratios – Non financial Sector](#)

[Withdrawal Policy](#)

[Short Term Instruments](#)

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 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. FIL's manufacturing facilities are 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, 2024.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)
Total operating income	4,306	4,286
PBILDT	234	238
PAT	90	111
Overall gearing (times)	0.59	0.34
Interest coverage (times)	5.99	8.17

A: Audited; Note: These are the latest available financial results.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	July 2029	0.00	Withdrawn
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-External Commercial Borrowings	LT	-	-	CARE A+; Stable (09-Jul-24)	1)CARE A+; Stable (10-Nov-23) 2)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	-	-	CARE A+; Stable (09-Jul-24)	1)CARE A+; Stable (10-Nov-23) 2)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	-	-	CARE A+; Stable/ CARE A1+ (09-Jul-24)	1)CARE A+; Stable/ CARE A1+ (10-Nov-23) 2)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	-	-	CARE A+; Stable/ CARE A1+ (09-Jul-24)	1)CARE A+; Stable/ CARE A1+ (10-Nov-23) 2)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)	-

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the 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

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here](#)

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

Contact us

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About us:

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