Filatex India Limited

June 22, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	402.12 (Enhanced from Rs.137.00 crore)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Revised from CARE A; Stable (Single A; Outlook: Stable)**
Long Term / Short Term Bank Facilities	750.00	**CARE A+; Stable/ CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)**	**Assigned**
Total Facilities	**1,152.12 (₹ One Thousand One Hundred Fifty-Two Crore and Twelve Lakhs Only)**		

Details of facilities in Annexure-1

Detailed rationale and key rating drivers

The revision in the rating assigned to the bank facilities of Filatex India Limited (FIL) factors 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 revision in rating also factors in lower than envisaged debt level due to prepayment of term debt resulting into improved debt coverage indicators and capital structure. The debt coverage indicators and capital structure are expected to remain comfortable in the medium term in the absence of any major debt-funded capex plan by the company.

The ratings 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 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. 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 proposed hybrid power project shall remain monitorable. CARE Ratings also notes that Income Tax authorities raised tax demand of nearly Rs.45 crore for the Assessment Year 2016-17 under preliminary reassessment of previous years after the income tax search conducted on the company in September 2021. However, as informed by the company management, FIL has filed an appeal against the said order, and they do not envisage any material liability arising from it. CARE Ratings would continue to monitor further developments with respect to this event and would review the ratings in case of any further material development in this regard.

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 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 beyond 1 times and total debt to PBILDT of more than 1.5 times on a net debt basis

Detailed description of the key rating drivers

Key rating strengths

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

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

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. Going forward, PBILDT margin is expected to remain in the range of 12-13% while absolute PBILDT and PAT are expected to remain better than FY22. With largely stable depreciation charge coupled with savings in interest cost due to lower debt level has led to significant improvement in PAT and GCA.
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 total 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 is expected to remain comfortable due to low capex intensity along with healthy cash accrual and 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.

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 is expanding its POY capacity by 120 Ton per Day (TPD) at a cost of nearly Rs.130 crore which is expected to be commissioned by the end of July 2022. 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.

Liquidity: Strong
FIL has strong liquidity marked by current ratio of 1.53 times 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.50-90 crore per annum during FY23-FY25 as against envisaged cash accruals of around Rs.400 crore per annum. 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 81% for last 12 months ended March 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

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, recently, 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
Criteria for short-term instruments
Financial ratios – Non-Financial Sector
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) *
Total operating income	2,230	3,845
PBILDT	351	548
PAT	166	303
Overall gearing (times)	0.84	0.42
Interest coverage (times)	5.96	15.90

A: Audited; * Abridged audited published results on stock exchange

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: Not Applicable

Complexity level of various instruments rated for this company: Annexure-3

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	231.80	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	-	July 2029	170.32	CARE A+; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	200.00	CARE A+; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	550.00	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 Borrowings	LT	231.80	CARE A+; Stable	-	1)CARE A; Stable (15-Sep-21) 2)CARE A; Stable (23-Jul-21)	-	-
2	Fund-based - LT-Term Loan	LT	170.32	CARE A+; Stable				
3	Fund-based - LT/ ST-Working Capital Limits	LT/ ST	200.00	CARE A+; Stable / CARE A1+				
4	Non-fund-based - LT/ ST-BG/LC	LT/ ST	550.00	CARE A+; Stable / CARE A1+				
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: 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

Annexure-4: Bank lender details for this company

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

Note on 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:
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