Filatex India Limited

July 23, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	137.00	CARE A; Stable (Single A; Outlook: Stable)	Assigned
Total Bank Facilities	**137.00 (Rs. One Hundred Thirty seven Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Filatex India Limited (FIL) factors in the experienced promoters and their long track record of operations in the textile industry, diversified product mix with value added products particularly Draw textured yarn (DTY) and Fully drawn yarn (FDY), established customer base and distribution network. The rating also favorably factors in the company's location advantage enjoyed from its Dahej plant and moderate financial risk profile characterized by moderate overall gearing levels and debt coverage indicators. The rating also takes cognizance of the completion the company's 30 MW captive thermal power plant which is under trail stage and is expected to reduce the power expenses going forward.

These rating strengths are however constrained by susceptibility of profitability margins to adverse movement in raw material prices and foreign currency fluctuation risk. The rating also remains constrained by the low pricing power of the company due to fragmented and competitive nature of industry.

Rating Sensitivities:

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

- PBLIDT margin of the company above 13% on a sustained basis
- Overall gearing of the company remaining below 0.60x on a sustained basis

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

- PBLIDT Margin of the company below 10% on a sustained basis
- Any higher than envisaged debt funded capital expenditure adversely impacting capital structure with overall gearing of more than 1.00x.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with 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 have experience of over three 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 and experienced in related fields.

The promoters from time to time had infused equity or unsecured loans to support the business which reflects the resourcefulness of the promoters.

Diversified product mix leading to improved operational performance

The company has diversified its product portfolio into partially oriented yarn (POY), draw textured yarn (DTY), fully drawn yarn (FDY), polypropylene yarn, polyester chips and narrow woven fabrics. The contribution of value-added product viz. DTY has increased over the years from 28% in FY20 to 42% in FY21. The same is expected to increase further in future with fresh capex in the pipeline. The company plans to undertake capex during FY23to increase its POY capacity by 120 MT per day and DTY capacity by 150 MT per day.

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[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

With diversified product mix, the company is able to generate better EBIDTA margins. The company's operating margins improved from 7.90% in FY19 to 15.94% in FY21 due to better product mix and higher composition of value added products.

Well-established customer base and distribution network

The promoter's experience helped the company to establish long-standing relationship with its customers. The company has been dealing with customers for more than five years and get repeat orders from them. The company also established a strong dealer network of 170-180 dealers located at various strategic locations.

Location advantage

The company's plant at Dahej and Dadra enjoy the benefit of being located in proximity to major consumption centres of Mumbai and Surat. Dahej is a cargo port situated on the South-west coast of Gujarat, India and hence the freight cost for the company reduces considerably.

Moderate Financial risk profile

The company has moderate financial risk profile characterised by moderate overall gearing and debt coverage indicators. The overall gearing of the company consistently improved over the past three years and stood at 0.83x as on March 31, 2021 as against 2.21x as on March 31, 2018. The interest coverage ratio and total debt to PBILDT also improved and stood comfortable at 6.06x and 1.78x respectively as on March 31, 2021.

Although, the revenue of the company moderated during FY21 owing to Covid-19 pandemic induced lockdowns and subsequent subdued demand, however, the company's EBIDTA margins improved consistently from FY19 to FY21. The margins improved significantly during FY21 to 15.94% on account of lower material cost in proportion to sales and increased contribution from value added products coupled with improved demand post recovery from COVID-19 induced lockdown.

Going forward, the margins are likely to reduce on account of increase in prices of raw material and expected to remain around 12% with value added products contributing more and savings envisaged from the captive power plant. The sustainability of these margins shall remain key monitorable going forward.

Improvement in profitability expected from 30 MW captive thermal power plant

The company has set up a 30 MW captive thermal power plant at an estimated project cost of Rs.165 crore funded with debt of Rs.115.50 crore and promoter contribution/ internal accruals of Rs. 49.50 crore. The project is expected to start commercial operations from end of July 2021 and is expected to reduce the power cost significantly post FY22 and onwards. Going forward, stabilization of captive thermal power plant and savings on power cost as envisaged shall remain monitorable.

Industry Outlook

The slowdown in domestic polyester price will persist in the current quarter of Q1FY22 and is likely to carry on in the initial part of Q2FY22 as the lockdown conditions across multiple states impacts polyester demand from downstream consumers all-over India. Also, the prices are unlikely to pick up in domestic market unless lockdown restrictions are lifted either completely or partially. This however is possible only when Covid-19 cases recede and vaccination drive gathers pace in India amid fear of third wave of pandemic. The Production Linked Incentive (PLI) scheme for MMF and home textile segments and MITRA scheme will augur well for the textiles sector as it will enable large scale manufacturing facilities for the industry, which will facilitate cost-efficiency to the players. However, the positive impact of these schemes will be seen only in the long-run with its effective implementation.

Key Rating Weaknesses

Exposure to volatility in raw material prices

The main raw material of FIL is Purified Terephthalic Acid (PTA), Mono-Ethylene Glycol (MEG) and Polypropylene Chips. These raw materials are derivatives of crude oil and its price is dependent on movement of crude oil prices. Furthermore, key raw material has to be purchased from bigger players; therefore, bargaining power of the company remains low. Hence, any adverse volatility in the raw material prices may affect the company's margins.

Foreign exchange fluctuation risk

FIL is also exposed to foreign exchange fluctuation risk on account of part of its term debt in foreign currency and also imports part of its raw material which exposes the company to currency fluctuation risk. The external commercial borrowings of the company remains unhedged. Though, the company exports around 11% of the finished product which acts as a natural hedge and hedges some part of forex exposure through forwards, but it still exposes the company to foreign exchange risk to the extent of the uncovered portion. During FY21, FIL has reported a loss of Rs.8.02 crore related to foreign exchange fluctuation as against a loss of Rs.20.00 crore in FY20.

Fragmented and competitive industry

FIL operates in a highly commoditised and fragmented yarn industry marked by large number of organised as well as unorganised players coupled with low entry barriers. Intense competition limits the pricing abilities of the players in the industry. Furthermore, the industry is characterised by players having low bargaining power against large suppliers. Additionally, presence of dominant and integrated players with better bargaining power limits the pricing flexibility of players operating in the segment.

Liquidity: Adequate

The company has adequate liquidity with cash and liquid investment of Rs.34.39 crore as on March 31, 2021. The company's fund based average working capital limit utilization for last 12 months stood around 21% as on May 2021 which leaves sufficient buffer to meet any exigency. Further the company is expected to generate gross cash accruals of more than Rs.200 crore during FY22 against which it has total repayment obligations of Rs.37 crore. Out of said repayments the company has already paid Rs. 5.37 crore and prepaid close to Rs.20 crore loan. The company non-fund based utilization as on May 2021 stood around 78% as these are majorly used for raw material procurement. The company's operating cycle stood comfortable at 17 days. The company has unutilized fund based limits of Rs.90.50 crore as on May 2021

Analytical approach: Standalone.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Manufacturing Companies
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology for Manmade Yarn Manufacturing

About the Company

Filatex India Limited, incorporated in August 1990, is engaged in manufacturing of Polyester & Polypropylene Multifilament Yarn. The company was promoted by the Bhageria family having an experience of over four decades into manufacturing and trading of synthetic filament yarn. The Chairman and Managing Director of the company, Mr Madhu Sudhan Bhageria has experience of over three decades in the industry. The company has manufacturing facilities at, Dadra (U. T. of Dadra & Nagar Haveli) and Dahej (Gujarat).

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	2,792	2,236
PBILDT	232	356
PAT	121	166
Overall gearing (times)	1.23	0.83
Interest coverage (times)	3.79	6.06

A: Audited

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable.

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-External Commercial Borrowings	Sep 2018	-	Sep 2028	137.00	CARE A; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (04-Apr-19)	1)CARE BBB+; Positive (05-Jul-18)
2.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (04-Apr-19)	1)CARE A2 (05-Jul-18)
3.	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (04-Apr-19)	1)CARE BBB+; Positive (05-Jul-18)
4.	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (04-Apr-19)	1)CARE A2 (05-Jul-18)
5.	Fund-based - LT-External Commercial Borrowings	LT	137.00	CARE A; Stable	-	-	-	-

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

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-External Commercial Borrowings	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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