Filatex India Limited

July 03, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	680.91 (enhanced from 467)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE BBB (Triple B)**
Short-term Bank Facilities	300.00	**CARE A2 (A Two)**	**Revised from CARE A3+ (A Three Plus)**
Total	**980.91 (Rupees Nine Hundred Eighty crore and Ninety One lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Filatex India Limited takes into account improvement in the profitability, capital structure and debt protection metrics during FY17 (refers to the period April 1 to March 31). The ratings also take cognizance of the completion of fully drawn yarn and drawn textured yarn manufacturing facility at Dahej.

The ratings continue to derive strength from the long experience of the promoters in the textile industry with proven track record of operations, established customer base and distribution network, forward integration into value-added products and location advantage enjoyed at the Dahej plant. The strengths, however, continue to be constrained by exposure to volatility in raw material prices and foreign currency fluctuation risk. The strengths are further constrained by low pricing power due to fragmented and competitive industry and risk related to the brownfield expansion at Dahej.

Going forward, the ability of the company to complete the brownfield expansion plan at Dahej with in time and cost estimates shall be the key rating sensitivity. Further achieving the envisaged revenue and profitability margin shall also remain the key rating sensitivities.

Outlook: Stable

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in overall financial risk profile

During FY17, FIL's operating income increased by 21% in F17 to Rs.1,559.51 crore as against Rs.1,288.89 crore in FY16. The company reported PAT of Rs.41.20 crore in FY17 as against Rs.26.27 crore in FY16. The company also reported improvement in the PBILDT margin by 165 bps to 9.27% in FY17 from 7.62% in FY15. The improvement was largely attributable to addition of value-added products (FDY and DTY) into product mix coupled with reduced material cost. The PAT margin also improved 60 bps to 2.64% in FY17 from 2.04% in FY16. The overall gearing improved to 1.51x in FY17 from 1.65x in FY16 on account of timely repayments coupled with accretion to profit to networth. The interest coverage ratio and Total debt/GCA showed an improvement at 2.54x and 6.81x as against 1.92x and 9.45x in FY16, respectively.

Experienced promoters with 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. Mr Madhu Sudhan Bhageria, Chairman and Managing Director have experience of over two decades in the industry. The promoters have been supporting the company with regular fund infusion in the form of equity and unsecured loans. As per sanction letter from bank the unsecured loans will be maintained at existing level in the business on a long-term basis during the currency of the bank loan. The management team of the company is well-qualified and experienced in related fields.

Forward integration into value-added products

The company had undertaken forward integration project wherein it replaced manufacturing of Polyester chips by high value-added items, viz, Fully Drawn Yarn and Partially Oriented Yarns to Drawn Textured Yarn (DTY). The company successfully commenced forward integration project of increase in the FDY production in March 2016 and DTY production in September 2016. With this, the company changed his product mix and entered into value added products resulting into an overall improvement in the financials of the company in FY17.

Well-established customer base and distribution network
The company's plants at Dadra and Dahej are located in proximity to major consumption centres of Mumbai and Surat and hence freight costs are reduced considerably. Furthermore, 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 with 30 large dealers located at various strategic locations.

Location advantage
The company's plants at Dahej and Dadra enjoy the benefit of being located in proximity to major consumption centers of Mumbai and Surat. Dahej is a cargo port situated on the South-west coast of Gujarat, India. There is also Special Economic Zone declared by the Gujarat Government in the Dahej area. The company has witnessed improvement in the capacity utilization at Dahej plant to 80.91% in FY17 as against 70.00% in FY16. The improvement was largely on account of plant located near the consumption centers such as Mumbai and Surat.

Key Rating Weaknesses

Risk related to brownfield field expansion project at Dahej
The company is developing a bright polymer capacity project in Dahej with a total outlay of Rs.343.00 crore for which the total debt of Rs.279.5 crore is already tied up and is under disbursement. The total debt of Rs.279.5 crore includes Rs.174.5 crore of ECA funding from German banks at a very low cost of funds. The balance debt of Rs.105 crore is from domestic lenders including PNB, UBI and OBC. The scheduled commercial operation date of the project is April 2018. The project is initiated to increase the installed capacity. The large size of the project exposes the company to project implementation risk. However, experienced promoters in textile industry, in-house project management team, small gestation of the project and successful completion of previous projects on time in the past mitigates the risk associated with the project to some extent.

Exposure to volatility in raw material prices and foreign exchange fluctuation risk
The main raw material of FIL is Purified Terephthalic Acid (PTA), Mono-Ethylene Glycol (MEG), Polyester Bright Chips 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.
The company was impacted for exchange fluctuation losses of Rs.16.33 crore during FY14 which had impacted its profitability. However, since FY15, the company has adopted exchange risk mitigation policy and is suitably hedging forex exposure through forward contracts to mitigate the foreign exchange risks.

Fragmented and competitive industry
FIL operates in a commoditised and fragmented yarn industry marked by large number of organised as well as unorganised players coupled with low entry barriers. 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. This limits the pricing flexibility of players operating in the segment.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

About the Company
Filatex India Limited, incorporated in August 1990, is engaged in manufacturing of Polyester, Nylon & 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 two decades in the industry. The company has manufacturing facilities at Noida (U.P.), Dadra (U. T. of Dadra & Nagar Haveli) and Dahej (Gujarat). The capacity utilisation at Dahej plant has been

increased to 80.91% in FY17 as against 70.00% in FY16. Other plants at Noida (U.P.) and Dadra (U.T.) also witnessed improvement in the capacity utilisation in FY17.
During FY17, the company reported PAT of Rs.41.20 crore as against total operating income of Rs.1,559.51 crore and PAT of Rs.26.27 crore as against a total operating income of Rs.1,288.89 crore in FY16.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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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- Secured Rupee Term Loan	-	-	March, 2028	540.91	CARE BBB+; Stable
Fund-based - LT- CC	-	-	-	140.00	CARE BBB+; Stable
Non-fund-based - ST- BG/LC	-	-	-	300.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Previous Ratings		
		Type	Amount Outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT- Secured Rupee Term Loan	LT	540.91	CARE BBB+ ; Stable	CARE BBB (June 23, 2016)	-	-
2.	Fund-based - LT- Cash Credit	LT	140.00	CARE BBB+ ; Stable	CARE BBB (June 23, 2016)	-	-
3	Non-fund-based - ST- BG/LC	ST	300.00	CARE A2	CARE A3+ (June 23, 2016)	-	-

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CIN - L67190MH1993PLC071691