March 16, 2023

Superfil Products Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	15.00	19.00	[ICRA]BBB+ (Stable) reaffirmed / assigned
Long-term – Fund-based – Term Loan	13.50	11.55	[ICRA]BBB+ (Stable) reaffirmed
Long-term – Fund-based – SLC	2.50	2.50	[ICRA]BBB+ (Stable) reaffirmed
Short-term – Non-fund Based – LC	19.00	29.00	[ICRA]A2+ reaffirmed/ assigned
Total	**50.00**	**62.05**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings consider the established presence of Superfil Products Private Limited (SPPL) and the extensive experience of the promoters in the filament yarn industry, which has ensured strong relationships with customers and regular order inflow. ICRA takes comfort from SPPL's revenue diversification across industries, which mitigates the risk of cyclicality in any industry, leading to stability in the revenues. However, most of its revenue (50-55%) is generated from the industrial segment. The company's revenues have remained flat in 10M FY2023 on account of sluggish demand and increased competition from cheaper imports in the market, which has also led to decline in realisations. While exports demand continues to remain weak, ICRA expects the company to record a revenue growth of 5-8% in FY2024, supported by growth in domestic volumes and SPPL's planned capacity addition; however, moderation in realisations could impact revenues. Nevertheless, the company's financial risk profile is comfortable with healthy gearing, strong coverage metrics and adequate liquidity position.

The ratings are, however, constrained by the modest scale of operations, which limits the economies of scale. The company is expected to expand its capacity to ~7,400 MT from 6,900 MT in FY2024 at an estimated cost of Rs. 7.0 crore. The ramp-up of expanded capacity would support growth to an extent. The ratings also factor in the exposure of SPPL's profitability to volatile raw material prices and foreign exchange (forex) fluctuation, which coupled with the intense competition puts pressure on its revenues and margins. The company's operating margins moderated from 13.3% in FY2022 to 10.0% in 10M FY2023 on account of lower realisations. SPPL's margins for FY2024 are expected to remain in line with FY2023.

The Stable outlook on the ratings reflects ICRA's opinion that SPPL will continue to benefit from its diversified revenue base and maintain its healthy financial risk profile with comfortable debt metrics.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; established customer relationship – SPPL was established in 1986. Its promoters have experience of over three decades in the filament yarn industry and the company has established relationships with its customers, ensuring regular order flow.

Diversified revenue base with moderate customer concentration risk – The company's products cater to diverse industries such as fishing, agro, industrial, and technical applications. The company derives most of its revenues from sales in the domestic market (87% in 10M FY2023), while 13% comes from exports to countries such as Sri Lanka, Italy, Morocco, Spain, the UAE, Malaysia and Belgium, among others. The diversified end-user base mitigates the risk of cyclicality in any specific industry, lending stability to its revenues. Overall, the customer concentration has also remained moderate with the top 10 customers contributing ~37% to revenues in 10M FY2023 (40% in FY2022).

Financial profile characterised by robust capital structure and coverage indicators – The company's capital structure and coverage indicators continue to remain comfortable. The debt protection metrics, despite moderation owing to higher debt, remained comfortable as indicated by Total Debt/OPBDITA of 1.5 times, interest coverage of 8.7 times and DSCR of 4.2 times in 10M FY2023 (against TD/OPBITDA of 0.8 times, interest coverage of 15.6 times and DSCR of 4.4 times in FY2022). In 10M FY2023, the company's revenues have been flat owing to slowdown in domestic and global demand. The profit margins contracted in 10M FY2023 owing to sluggish market conditions and increase in competition from cheaper import products from China. SPPL is expected to record 5-8% revenue growth in FY2024 supported by growth in domestic volumes even as exports demand continues to remain weak. The profit margins are expected to be remain at similar levels as 10M FY2023.

Credit challenges

Modest scale of operations and stagnant revenue growth – The company is a mid-sized player in the filament yarn industry, with a modest scale of operations at an installed production capacity of 6,900 MT. In 10M FY2023, the company recorded revenues of Rs. 167.1 crore, which were in line with revenues in FY2022. The overall realisations have declined marginally by 3%; although volumes have grown by 3%. The company plans to increase its manufacturing capacity by 400-500MT in FY2024; successful ramp-up of the same would aid revenue growth.

Vulnerability of profitability to adverse fluctuation in raw material and forex rates – The company's major raw materials are nylon 6, nylon 66 and polyethylene terephthalate (PET). Being crude derivatives, the raw materials expose the company's margins to adverse movements in raw material prices. Further, as SPPL derives ~15-20% of its revenues from exports and has high reliance on import of various raw materials, the profitability remains exposed to fluctuations in forex rates in the absence of any formal hedging policy.

Intensely competitive industry and high dependence on China for raw materials – The business environment remains competitive, given the industry structure. A large portion of the filament yarn industry is serviced by unorganised players, who cater to the small-scale requirements of clients across various industries, while the remaining is dominated by a few major players. This limits the company's pricing flexibility and exerts pressure on its profitability. However, SPPL's superior and diverse product profile, and its established client relationships mitigate the risk to some extent. As the company imports a significant part of its raw materials from China, their procurement and availability would be a key monitorable.

Liquidity position: Adequate

The company's liquidity position remains adequate with free cash and unencumbered investments of Rs. 31.7 crore and a buffer of about Rs. 5.30 crore in working capital limits as on February 28, 2023, against a total capex of ~Rs. 8.0 crore and ~Rs. 3.0 crore over the next 12 months. The company also has LCs of Rs. 16.5 crore maturing in the next four months; however, a part of the same is expected to be rolled over.

Rating sensitivities

Positive factors – The company's rating could be upgraded if there is a material improvement in its scale of operations, operating income and profitability, leading to higher cash flows.

Negative factors – ICRA can downgrade the rating of the company if a major decline in scale or profitability significantly deteriorates the debt metrics or liquidity position. Any significant debt-funded capex affecting the company's debt protection metrics materially can also lead to a rating downgrade. Specific credit metric that could lead to a downgrade include TOL/TNW of more than 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Superfil Products Private Limited was originally incorporated as a public limited company in 1986 and, subsequently, converted into a private limited company in 2016. SPPL manufactures monofilaments and multifilaments from various monomers and polymers such as nylon 6, nylon 66, PET, polypropylene and polyethylene at its manufacturing facilities in Chennai, Pondicherry and Nagercoil. The company manufactures filaments in various grades, which find applications primarily in the fishing net and agro industries. The manufactured filaments are also used for diverse industrial and medical applications. The company also has three windmills, with a total energy generation capacity of 2.55 MW.

Key financial indicators (audited)

Superfil Products Private Limited	FY2022	10M FY2023**
Operating income	200.9	167.1
PAT	18.6	11.2
OPBDIT/OI	13.3%	10.0%
PAT/OI	9.3%	6.7%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	0.8	1.5
Interest coverage (times)	15.6	8.7

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. Crore; **10M FY2023 financials are provisional and unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2023 (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Mar 16, 2023	Jun 10, 2022	Jun 03, 2021	-	Mar 31, 2020
1	Long Term - Fund Based – Cash Credit	Long-term	19.00	NA	**[ICRA]BBB+ (Stable)**	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)
2	Long Term - Fund Based – Term Loans	Long-term	11.55	5.10	**[ICRA]BBB+ (Stable)**	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)		[ICRA]BBB+ (Stable)
3	Long Term - Fund Based –	Long-term	2.50	NA	**[ICRA]BBB+ (Stable)**	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)		[ICRA]BBB+ (Stable)

	Standby line of credit								
4	Short Term – Non-Fund Based – LC	Short-term	29.00	NA	**[ICRA]A2+**	[ICRA] A2+	[ICRA] A2+	-	[ICRA] A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - fund based - Cash Credit	Simple
Long Term - fund based - Term Loan	Simple
Long Term - fund based - Standby line of credit	Simple
Short Term - non-fund based – Letter of Credit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	19.00	[ICRA]BBB+ (Stable)
NA	Term Loan	FY2021	NA	FY2027	11.55	[ICRA]BBB+ (Stable)
NA	Standby line of credit	NA	NA	NA	2.50	[ICRA]BBB+ (Stable)
NA	Letter of Credit	NA	NA	NA	29.00	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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