March 18, 2024

Superfil Products Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	19.00	19.00	[ICRA]BBB+ (Stable); reaffirmed
Long-term – Fund-based – Term Loan	11.55	7.70	[ICRA]BBB+ (Stable); reaffirmed
Long-term – Fund-based – SLC	2.50	2.50	[ICRA]BBB+ (Stable); reaffirmed
Short-term – Non-fund Based – LC	29.00	29.00	[ICRA]A2+; reaffirmed
Long-term/Short-term – Unallocated	-	3.85	[ICRA]BBB+(Stable)/[ICRA]A2+; reaffirmed
Total	**62.05**	**62.05**	

Instrument details are provided in Annexure-I

Rationale

The ratings consider ICRA's expectation that Superfil Products Private Limited's (SPPL) credit profile will remain comfortable on the back of steady growth in revenues and earnings, supported by healthy demand from the industrial segment. The ratings consider SPPL's established presence and the extensive experience of its 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 (55-60%) is generated from the industrial segment. The company's revenues have remained flat in 10M FY2024 on account of decline in realisations given the softening of input costs and sluggish demand from the fishnet segment, while demand from the industrial segment remains healthy. While exports demand continues to remain weak, ICRA expects the company to record a revenue growth of 5-8% in FY2025, 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 SPPL's modest scale of operations, which limits the economies of scale. The company is expected to expand its capacity to ~7,800 MT from 7,300 MT in FY2025 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 to 10.6% in FY2023 from 13.4% in FY2022 on account of lower realisations; and similar margins are expected for FY2024 and FY2025 as well.

The Stable outlook on the ratings reflects ICRA's opinion that SPPL will record steady growth in earnings, benefitting 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 relationships – SPPL was established in 1986. Its promoters have an 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 the domestic market (88% in 9M FY2024), while 12% 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 low with the top 10 customers contributing ~36% to its revenues in 9M FY2024 (35% in FY2023).

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 have remained comfortable as indicated by Total Debt/OPBDITA of 0.9 times, interest coverage of 8.5 times and DSCR of 3.7 times in 10M FY2024 (against TD/OPBITDA of 1.2 times, interest coverage of 9.3 times and DSCR of 4.4 times in FY2023). In 10M FY2024, the company's revenues have been flat owing to ~9% decline in realisations while volumes increased by 5%. Moderation in nylon prices, which is the company's key raw material, has resulted in moderation in realisations. SPPL is expected to record 5-8% revenue growth in FY2025 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 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 7,300 MT. In 10M FY2024, the company recorded revenues of Rs. 165.4 crore, a marginal YoY de-growth of 4%. The overall realisations have declined by 9%; although volumes have grown by 5%. The demand from the fishnet segment has been subdued on account of softening input prices, whereas the industrial segment demand is improving with increasing wallet share from its existing customers and addition of new customers. The company plans to increase its manufacturing capacity by 400-500MT in FY2025, whose successful ramp-up 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 its margins to adverse movements in raw material prices. Further, as SPPL derives ~10-15% of its revenues from exports and is highly reliant on imports for its various raw materials, its 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 bank balances along with liquid investments of about Rs. 33.7 crore (free cash of ~Rs. 11.6 crore and balance ~Rs. 22.1 crore in mutual funds) as on January 31, 2024. It has a buffer of Rs. 5.3 crore (as on February 29, 2024), against repayment obligations of about Rs. 0.3 crore in February–March 2024 and ~Rs. 1.0-2.0 crore in FY2025. The company also has capex plans of about Rs. 6.0–8.0 crore for FY2025, which will be funded through a term loan of Rs. 5.4 crore and the balance through internal accruals.

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 and 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 downgrade. Specific credit metric that could lead to 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, originally incorporated as a public limited company in 1986 in Chennai, was converted into a private limited company in 2016. SPPL manufactures monofilaments and multifilaments from various monomers and polymers such as nylon 6, nylon 66, polyethylene terephthalate, polypropylene and polyethylene. The company manufactures filaments in various grades, which find applications primarily in the fishing net industry and agro lines. 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)

	FY2022	FY2023
Operating income	201.1	206.5
PAT	18.6	14.1
OPBDIT/OI	13.4%	10.6%
PAT/OI	9.3%	6.8%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	0.8	1.2
Interest coverage (times)	15.7	9.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Jan 31, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Mar 18, 2024	Mar 16, 2023	Jun 10, 2022	Jun 03, 2021	-
1	Cash Credit	Long term	19.00	-	**[ICRA]BBB+ (Stable)**	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Term Loan	Long term	7.70	1.20	**[ICRA]BBB+ (Stable)**	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
3	Standby line of credit	Long term	2.50	-	**[ICRA]BBB+ (Stable)**	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
4	Letter of Credit	Short term	29.00	-	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
5	Unallocated	Long term and short term	3.85	-	**[ICRA]BBB+ (Stable) / [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 – SLC	Simple
Short-term – Non-fund Based – LC	Very Simple
Long-term/Short-term - Unallocated	Not Applicable

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	7.70	[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+
NA	**Unallocated**	NA	NA	NA	3.85	[ICRA]BBB+ (Stable)/[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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