August 25, 2017

Safar Polyfibre Private Limited

Summary of rated instruments

Instrument*	**Rated Amount (Rs. crore)**	**Rating Action**
Fund Based – Cash Credit	10.00	[ICRA]B(Stable); Outstanding
Fund Based – Term Loan	25.25	[ICRA]B(Stable); Outstanding
Fund Based -0 EPC/FBD**	Nil (Revised from 1.00)	-
Non Fund Based – Bank Guarantee	4.70 (Revised from 1.00)	[ICRA]A4; Assigned/Outstanding
Non Fund Based – CEL for Forward Contract	0.09	ICRA]A4; Outstanding
Non Fund Based – Letter of Credit***	Nil (Revised from 20.90)	-
Total	**40.04**	

*Instrument details are provided in Annexure-1, **Sublimit within CC ***Sublimit within TL

Rating action

ICRA has assigned the short -term rating of [ICRA]A4 (pronounced ICRA A four)[1] to the Rs. 3.70 crore[2] non-fund based bank facilities of Safar Polyfibre Private Limited (SPPL). ICRA also has an outstanding long-term rating of [ICRA]B assigned to the Rs. 35.25 crore fund-based limits and short-term rating of [ICRA]A4 (pronounced ICRA A four) assigned to the Rs. 1.09 crore non-fund based limits of SPPL. The outlook on the long-term is ‘stable’.

Rationale

The ratings positively factors in the experience of the promoters in plastics and related businesses. ICRA also notes the favourable demand prospects for Recycled Poly-Staple Fibre (RPSF), driven by its varied applications and cost competitiveness.

The ratings, however, are constrained by the project implementation and execution risks associated with the Greenfield project of SPPL. The project is still at its nascent stage and is expected to commence operations from September 2017 with an estimated delay of around one month in the commencement of operation, and at an estimated cost over-run of Rs. 1.50–2.00 crore. Furthermore, the rating takes into account the company’s financial profile, which is expected to remain stretched in the near to medium term, given the debt-funded nature of the project and the impending debt repayments. The ratings are also constrained by SPPL’s presence in the highly competitive technical textile industry and the susceptibility of SPPL’s profitability, post commissioning, to volatility in virgin poly-staple fibre prices.

Key rating drivers

Credit strengths

- **Long experience of promoters in plastics and related products -** The promoters have two decades of experience in manufacturing various plastic products from virgin material and scrap. With industry knowledge and an existing network of plastic scrap and Poly-Ethylene Terephthalate waste suppliers, the promoters have led SPPL to diversify into the business of RPSF manufacturing. The promoters also have a vast experience of other sectors such as construction, trading of grit, stones, pesticides and manufacturing of wall tiles, among others.
- **Favourable demand outlook for regenerated PSF, driven by varied applications and cost competitiveness vis-à-vis virgin grade PSF** – RPSF demand is driven by end-consumer industries like polyester blended yarn spinning mills, home furnishing, automobile fabrics and geotextiles. It is used primarily as filling material in home furnishing products like quilts, pillows, automobile fabrics and geotextiles. While currently the share of recycled polyester staple fibre used in these segments is low, the lower cost advantage and increasing awareness about the use of eco-friendly material is expected to raise its usage in the coming years.

Credit weaknesses

- **Delay of around one and half months in commencement of commercial operation and estimated cost over-run of ~Rs. 1.50 crore -** The company had estimated to commence its trial runs from June 2017 and commercial production from mid July 2017. However, due to delay in import of machinery, commercial production is estimated to commence from September 2017. Furthermore, company has incurred foreign exchange loss of around Rs. 0.70 crore on import of machinery. Currently, the cost over-run of approximately Rs. 1.50 crore is estimated. As production is yet to commence, SPPL remains exposed to execution and implementation risks associated with a Greenfield project.
- **Financial profile expected to remain stretched in the near term –** High reliance on debt funding and its associated servicing burden are expected to keep the company's credit metrics stretched over the near to medium term.
- **Competition from well organised players with long established presence in the segment** - The RPSF market is fragmented with a large number of small to mid-sized players. The top three players—GEL, Reliance Industries and Pashupati Polytex—account for ~50% of the installed capacities of RPSF in the country. Furthermore, more than 50% of the production is generated by manufacturing units in Uttar Pradesh and Uttarakhand. SPPL is a late entrant in the market, and is much smaller in scale (50 MTPD) vis-à-vis the other players. However, RPSF is a growing segment, and to that extent, the demand–supply dynamics are favourable enough to support capacity utilisation.
- **Volatile PSF prices could squeeze profitability -** The market price of regenerated polyester fibre shows variation with the price of VPSF (substitute for RPSF), which in turn, is linked to crude oil prices (as its raw materials Purified terephthalic acid and Mono Ethylene Glycon are crude derivatives) and alternative fibre prices like cotton. Accordingly, the profitability of RPSF manufacturers can come under pressure in case of substantial fall in crude oil prices resulting in fall in virgin grade PSF prices.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology

About the company:

Safar Polyfibre Private Limited (SPPL) was incorporated in February 2016. Currently it is setting up a Greenfield project to manufacture Recycled Polyster Stable Fibres (RPSF) using waste polyethylene terephthalate (PET) bottles as raw material at Village Kuchiyadad in Rajkot, Gujarat. The proposed installed production capacity of the unit is 50 tonnes per day.

SPPL is promoted by Mr. Hitesh Bhalodiya, Mr. Nilesh Bhalodiya and Mr. Paresh Bhalodiya, along with seven other directors. The promoters have two decades of experience in manufacturing various plastic products from virgin material and scrap. The promoters also have a vast experience of other sectors such as construction, trading of grit, stones, pesticides and manufacturing wall tiles, among others.

The estimated project cost is Rs. 51.67 crore, which is being funded through Rs. 25.25-crore of term loans, equity share capital of Rs. 9.00 crore and unsecured loans of Rs. 17.4 crore. On a project basis, the debt-to-equity ratio is high at 4.73:1.

As on July 01, 2017, capital cost amounting to Rs. 45.48 crore was incurred towards the project, funded through shareholders’ equity of Rs. 9.00 crore, term loan of Rs. 21.39 crore, unsecured loans of Rs. 11.43 crore and outstanding creditors for capital goods of Rs. 3.66 crore. Currently the company expects to commence commercial production from September 2017. The repayment of the bank term loan is scheduled to commence from January 2018, providing a cushion of about five months to the company. Hence, the future cash flow adequacy of the company would be sensitive to its ability to successfully market its product and thereby ramp up its operations in a competitive industry.

Key Financial Indicators (Audited) - Not Applicable, as no Audited results available.

	FY2017
Operating Income (Rs. crore)	N.A.
PAT (Rs. crore)	N.A.
OPBDIT/ OI (%)	N.A.
RoCE (%)	N.A.
	N.A.
Total Debt/ TNW (times)	N.A.
Total Debt/ OPBDIT (times)	N.A.
Interest coverage (times)	N.A.
NWC/ OI (%)	N.A.

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	**Instrument**	**Current Rating (FY2018)**				**Chronology of Rating History for the past 3 years**			
		Type	**Amount Rated (Rs. crore)**	**Amount Outstanding (Rs. crore)**	**Date & Rating**	**Date & Rating in FY2017**		**Date & Rating in FY2016**	**Date & Rating in FY2015**
					August-17	**October 2016**	**December 2016**	**-**	**-**
1	Cash Credit Limits	Long Term	10.00	0.23	[ICRA]B (Stable)	[ICRA]B	-	-	-
2	Term Loan Limits	Long Term	25.25	24.14	[ICRA]B (Stable)	[ICRA]B	-	-	-
3.	EPC/FBD *	Long Term	Nil (revised from Rs. (1.00))	-	-	[ICRA]B			
4.	Bank Guarantee	Short Term	4.70	-	[ICRA]A4	[ICRA]A4			
5.	CEL for forward Contract	Short Term	0.09	-	[ICRA]A4	[ICRA]A4			
6.	LC (Capital Goods)**	Short Term	Nil (revised from Rs. (20.90))	-		[ICRA]A4			
7.	Unallocated Limits	Long term/ Short term	Nil	-	-	-	[ICRA]B/A4		

**Sublimit within CC **Sublimit within TL*

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	**Date of Issuance / Sanction**	**Coupon Rate**	**Maturity Date**	**Amount Rated (Rs. crore)**	**Current Rating and Outlook**
Cash Credit	-	-	-	10.00	[ICRA]B (Stable)
Term Loan	September 2016	(MCLR+2.70%)	December 2022	25.25	[ICRA]B (Stable)
Bank Guarantee	-	-	-	4.70	[ICRA]A4
CEL for forward Contract	-	-	-	0.09	[ICRA]A4

Source: SPPL

Contact Details

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Pooja Shah
+91 79 4027 1540
pooja.shah@icraindia.com

Meena Kochita
+91 79 4027 1542
meena.kochita@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

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.

For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	