



Investor's Delight: Sarla Performance Fibers Ltd. (SPFL) - "Visit Note"

Established in 1995, SPFL is engaged in the business of manufacturing specialized and high margin polyester and nylon yarn. The Company has two manufacturing facilities in Silvassa with a capacity of 11,900 TPA and an in-house dyeing plant with a capacity of 3,200 TPA. In addition, SPFL has windmill capacities in Satara (2 MW), Sangli (4 MW) and Vapi (1.25 MW). SPFL is the only Indian company in this sector to have manufacturing presence in NAFTA and CAFTA regions by foraying in US and set up a facility at South Carolina in 2013 with a capacity of 30 tons per day. In addition, SPFL has marketing offices in Portugal. SPFL is a 100% Export-Oriented Unit, focused on Specialty Polyester and Nylon Yarns, in the field of Narrow Fabrics, Hosiery, Inner Wear, Sports Wear, Threads and Industrial Yarn. The Company is amongst the first manufacturers of covered yarn and now one of the largest in India. The Company has started a pilot plant of Nylon 66 and is the only Company in India to manufacture Nylon 66, a high tenacity & low shrinkage product. SPFL supplies to 116 customers in over 40 countries in 6 continents. It has marquee global clients like Hanes Brand, Gildan, Renfro, American & Efird, Delta Galil, Coats & Jockey.

SPFL successfully completed QIP in October 2014 of Rs.467 million. The proceeds from the QIP are currently kept in a bank fixed deposits and would be used mainly for the Phase-2 expansion of the US facility at a future appropriate time.

Over the period FY04-FY14, the Company's topline has witnessed a CAGR of 13 % and an impressive bottomline CAGR of 21%. In Q3FY15, revenues registered topline growth of 13%. EBITDA stood at Rs. 136 mn, margin of 19%. With due consideration to factors like a) big opportunity in nylon 66 segment, b) US facility to drive growth, c) strong operating performance, d) positive operating cash flow, e) healthy balance sheet & decent return ratios, and f) marquee clients with strong relationships, we believe the Company's future prospects are bright. At CMP, the stock trades at a PE multiple of 8x at FY14 EPS of Rs. 46.3.

Particulars	9MFY15	FY14	FY13	FY12
Revenues	2,415	2,726	2,595	2,351
Operating Profit	434	575	476	345
OPM (%)	17.9	21.1	18.3	14.7
PAT	221	321	276	190
PAT (%)	9.15	11.7	10.6	8.08
EPS	30.27	46.3	39.7	27.3
P/E (x)	-	8	9	13
Price/Book (x)	-	1.5	1.8	2.0
ROE(%)	-	19.0	19.4	15.2
ROCE (%)	-	14.1	16.8	13.9
D/E (x)	1.2	1.2	0.8	0.5

Source: Company, Ajcon Research

CMP	Rs. 366
Target Price	Not rated
Sector	Textiles
Beta vs Sensex	0.50
BSE/NSE Code	526885/SARLAPOLY
Bloomberg Code	SRPL:IN
52 Week High	Rs. 475
52 Week Low	Rs. 162.3
Face Value	Rs. 10
Share Capital	Rs. 69.5 mn
Market Capitalization	Rs. 2,544 mn
Book Value	Rs. 259 per share
Shareholding Pattern (%)	As on Dec. 2014
Promoters	55.2
FII's	-
DII's	15.94
Others	28.86



History

Year	Particulars
1993	Sarla Polyester Private Limited (SPL) was formed with the status of a 100% Export Oriented Unit (EOU)
1994	Sarla Polyester Pvt. Ltd. was converted into a public limited company
1995	Established its first manufacturing unit in Silvassa at the Amli Piparia Industrial Area for polyester textured / twisted yarn SPL was listed on Bombay Stock Exchange
1996	Established an in – house dyeing plant in Vapi consequently broadening the product offering to dyed yarns
1997	Introduced its second core product Nylon textured/twisted and dyed yarn
1999	Shifted focus from commodity yarns to providing customers with value added products. SPL introduced a slew of new products in the forthcoming years beginning with covered yarns. Amongst the first to produce and market air covered and conventional covered rubber/spandex yarns from India. Today, SPL has one of the largest facilities to manufacture covered yarns in India.
2000	Expanded product portfolio to sewing thread
2004	Established 2 nd manufacturing unit in Silvassa to house increasing production capacities
2005	Received Award for 'BEST EXPORT ORIENTED UNIT' (SSI Category – Textile & Textile Product) by Export Promotion Council for EOU and SEZ units
2006	A change in the Company's name from Sarla Polyester Ltd. to Sarla Performance Fibers (SPFL) to indicate the expansion in Company's operational activities from commodity products to multiple specialized products along with Company's changing philosophy of professionalism and diversification in the similar segments Established its 1 st Joint Venture overseas in Honduras, Central America under the name Savitex S.A de C.V. Set up a spinning plant for conversion of nylon chips into high tenacity nylon 6 and nylon 66 industrial yarns. With this, SPFL became one of the first companies to establish manufacturing of specialized high tenacity threads which can be utilized in a wide range of applications.
2007	Created Sarla Overseas Holdings Ltd., a wholly owned subsidiary as a separate investment arm for the Company. The Company's shares were listed on the National Stock Exchange (NSE) Expanded production capacities and facilities in Silvassa with the addition of 2 building units Crossed Rs. 100 cr sales mark
2008	New Product Introduction – Introduction of Bonded Threads, a range of speciality threads for high end applications of the export market



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	Received Oeko Tex Certification
2009	Established a marketing subsidiary in Portugal, Sarla Europe LDA to service customer requirements of the European region. This helped the Company strengthen its foothold in the European market Marked its foray into Wind Power Generation
2010	This year witnessed the start of large scale project of expansion, up gradation & modernization of its Dyeing Plant located in Vapi, Gujarat Moving forward with the focus of better servicing the requirements of its international customers, SPFL in Oct. 2010 set up manufacturing operations in Turkey, a textile hub located at the gateway to Europe thereby effectively catering to both the Turkish & European Markets
2012	Incorporation of SarlaFlex LLC; a 100% subsidiary of SPFL in South Carolina, US for the manufacturing and marketing of yarn to USA and neighbouring markets
2013	Successfully commissioned the manufacturing of Nylon 66 high tenacity yarn. Being the first to manufacture this niche specialized product in India, a product manufactured by only a few global players, this historic step and achievement marks Sarla's entry into the top textile companies of the world having unique product offerings.
2014	In recognition of the stringent quality management systems which the Company has put in place over the years, SPFL has received the distinction of being an ISO 9001: 2008 certified company on June 3 rd , 2014

Source: Company, Ajcon Research



Key strengths

- 1) One of the largest manufacturers of covered yarn in India** – The Company is focused on high margin value added products i.e Specialised Polyester and Nylon Yarns. Amongst a few players globally catering to Specialised Yarns – used in variety of niche applications
- 2) Strategically located** – SPFL’s manufacturing and distribution hub are in close proximity to demand centres globally. The Company is effectively positioned to be a preferred supplier to global manufacturers in Eastern and Western Hemisphere. SPFL is the only Indian Company in this sector to have manufacturing presence in NAFTA and CAFTA regions.
- 3) Product Innovation & Quality** – Consistent quality and wide range of products provided to customers across the geographies. Over 150 moulds based on specifications provided by customers.
- 4) Strong Balance Sheet** – The Company has zero long term debt.
- 5) Marquee clients** - The Company has strong relationship with world’s largest brands globally like Hanes Brands, Gildan, Renfro, American and Efird, Delta Galil, Coats and Jockey. Manufacturing presence in USA gives it the confidence to most of the major customers based out of USA.
- 6) Global presence**



7) Entry Barriers

- Over 150 varieties of moulds** – Moulds form an integral part of the final product. These are designed as per client specifications to fit the varied machinery used by them in their plants in different geographies.

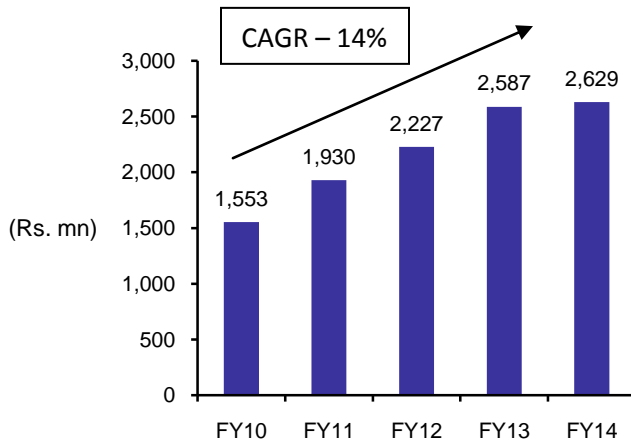


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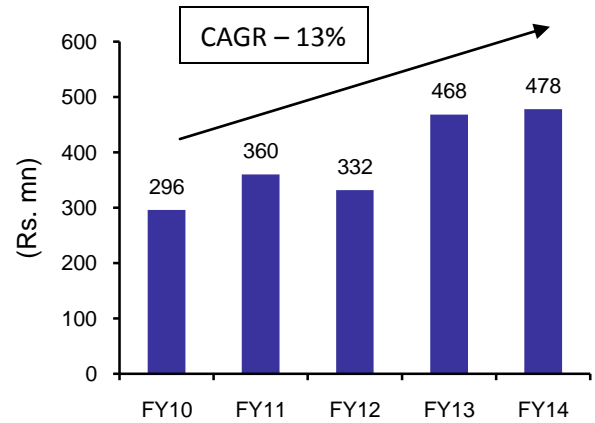
- b) **Clients stickiness towards Quality & Goodwill** – Global brands demand consistent quality products across markets. Major overseas clients with long standing relationship built over years.
- c) **Multi geography presence** – Only Indian company in the sector to have manufacturing presence in NAFTA & CAFTA regions. Manufacturing operations in US & India and Marketing offices in South America and Europe.

8) Strong Financial Performance

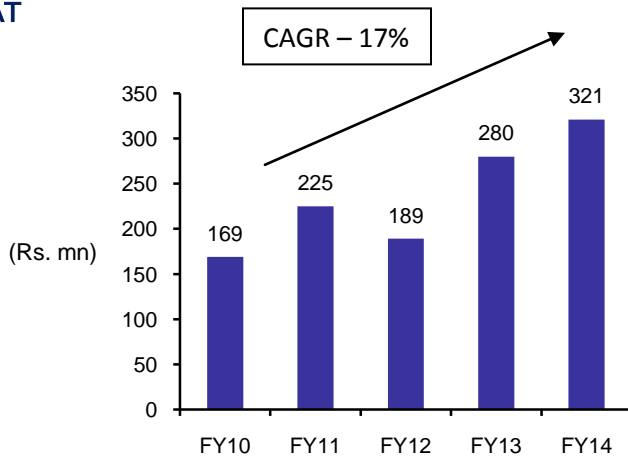
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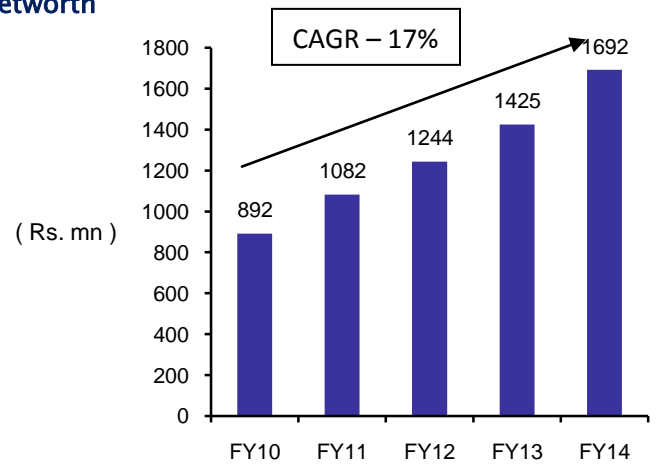
EBITDA



PAT



Networth





Growth Drivers

1) Nylon 66 presents big opportunity

Nylon 66 is a high tenacity and lower shrinkage yarn product. It has production applications – Parachutes, Shoes, Seat Belts & Car Airbags, Specialized Sewing Applications in Automotive, Shoes, leather, Industrial Filters and Hoses.

Nylon 66 is a derivative of nylon synthesized by polycondensation of hexamethylenediamine and adipic acid. It has superior mechanical properties and high heat resistance as compared to nylon 6. Nylon 66 can be reinforced with fillers, impact modifiers, fibers and internal lubricants to improve its physical properties such as strength, stiffness, ductility, friction properties and wear resistance. Nylon 66 is also used for electro-insulating material, various machine parts, ball bearing cages, pipes, tyres, ropes, conveyor belts, carpets fibers and apparel. End user industries of nylon 66 include automotive, industrial, consumer goods and electronics & electrical. Properties such as toughness, resistance to chemicals and high temperature, good appearance and processing flexibility makes nylon 66 suitable for various engineering applications.

Growing demand from increasing automotive applications is expected to drive the nylon 66 market. It finds major application in automotive industry as it is used to replace metal for reducing weight of the vehicle and meet vehicle emission standards. Changing lifestyle and rising disposable income of consumer groups in developing countries is driving the automotive industry growth. Emission standards of vehicles and environmental regulations in developed countries of Europe are driving the light weight vehicles market which in turn expected to boost nylon 66 market. Further, growing demand from electrical & electronic industry is expected to fuel the market growth.

North America was the largest producer of nylon 66 however; Asia pacific was the largest consumer due to various applications. China being the center of consumption in Asia pacific region and its desire to become self sufficient, capacity additions are aggressive in this region. Asia Pacific is expected to witness highest growth rate in terms of production and consumption as compared to other regions. Growing automotive and electrical & electronic industries are expected to drive the nylon 66 market. The South East Asian, Latin American nations and Eastern European countries are expected to experience higher growth rates owing to increase in auto sales, growing electrical and electronics industry, shifting preference of manufacturers from metals to nylon 66.

The Company commenced trials production of Nylon 66 yarn at Silvassa in 2013 on pilot basis with an installed capacity of 450 tonnes p.a. and to be increased to 1600 tonnes in the near future. Being a niche product on its own, extremely specialized hence margins are substantially higher.

2) US - South Carolina facility to fuel growth in future...

In 2013, SPFL setup a new manufacturing facility in US. The new venture - Sarlaflex Inc. is a wholly owned subsidiary located at Industrial Park in Walterboro. The facility is primarily to serve North , South and Central American customers in the apparel and upholstery markets.

The Company has started commercial production from January of 2014. The facility is operating close to 20% of its rated capacity of 30 tons per day. SPFL has supplied trial quantities to at least 20 customers and is beginning to attain the right quality across spinning, texturizing and twisting processes. In addition it has hired senior managers to set right the quality standards demanded by large US textile companies. It has also spent considerable time training the American workforce which is not exactly conversant with all the processes. The Company plans to increase its current



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capacity from 9,900 tonnes per annum to ~18,000 tonnes per annum by FY17 which would drive growth. The total estimated cost of the project is US\$ 25 mn, out of which US\$14 mn has been already invested in Phase I.

The plant imports polyester chip and produce partially oriented yarn and drawn texture yarn that is North American Free Trade Agreement (NAFTA) and Central America Free Trade Agreement (CAFTA) compliant. Expansion or setting up of new textile plants targeting the apparel industry in the US is becoming more attractive as a result of the NAFTA and CAFTA agreements which make imports from countries outside the CAFTA & NAFTA region into the U.S. extremely uncompetitive.

CAFTA & NAFTA laws give immense benefits for companies that manufacture products in the United States. For apparel manufacturers in Central or North American countries using U.S. origin yarn in their final garment allows them the benefit of exporting & selling in the US market duty-free. If the Yarn was imported from countries such as China or India, where SPFL is essentially present, they would have been charged a duty of 32% while exporting the garment into the U.S. market. CAFTA eliminates all tariffs on over 80% of US manufactured goods. To counter this, SPFL has established a manufacturing unit in Charleston, South Carolina for POY (Partially Oriented Yarn) and textured polyester yarn. It expects to gain tremendous impetus after operations stabilize and with a strong demand & marketing initiatives in place, it would be able to increase its presence in these countries even further. Apart from the duty differential advantage, proximity and visibility to customer is expected to contribute significantly towards expanding and deepening customer relationships. In Textiles, all the major decision-makers are mainly based in the US; players may manufacture anywhere in the world but decision-makers are all in the US. As a result, setting up this US facility helped SPFL to get closer to these clients. Presence in the US helps building confidence, relationship with these clients. With this facility, SPFL is the only player to have a manufacturing presence in this sector in US as well as India. Manufacturing facility in Charleston, South Carolina in US is going to be an integral part of its business. The US facility is spread over 42 acres having a constructed area of around 3.5 lakh sq.ft. Total cost incurred to acquire this land was approximately Rs.4 crores as land was procured from the county which was a nonprofit organization. This facility would help the Company to save cost like logistics, power and borrowings. In addition, SPFL's facilities in Turkey and Portugal as well as a revamped dye house in India will drive volume.



Financials

Income statement summary					
Y/e 31 Mar (Rs m)	FY11	FY12	FY13	FY14	9MFY15
Revenue	1,930	2,351	2,595	2,726	2,415
Operating profit	342	345	476	575	433
Depreciation	(66)	(80)	(82)	(110)	(121)
Interest expense	(19)	(30)	(43)	(44)	(52)
Other income	18	0	0	0	42
Profit before tax	274	235	350	421	302
Taxes	467	(46)	(75)	(100)	(81)
Net profit	741	190	276	321	221

Source: Company, Ajcon Research

Balance sheet summary					
Y/e 31 Mar (Rs m)	FY11	FY12	FY13	FY14	9MFY15
Equity capital	70	70	70	70	70
Reserves	1,013	1,175	1,355	1,622	1,732
Net worth	1,083	1,244	1,425	1,692	1,802
Minority interest	0	0	0	0	0
Debt	476	655	1,072	2,033	2,175
Deferred tax liab (net)	92	112	140	150	146
Other non current liability			37	34	34
Total liabilities	1,651	2,012	2,674	3,909	4,157
Gross Fixed Assets	1,131	1,251	1,531	2,580	2,671
Less: Acc. Dep	353	428	510	620	740
Net Fixed assets	1,484	823	1,022	1,961	1,931
CWIP	0	0	266	9	0
Intangible assets	0	0	2	2	0
Investments	0	15	28	548	548
Long term loans and advances	0	96	114	70	73
Other Non Current Assets	0	2	0	0	0
Foreign currency monetary item translation difference amount		0	4	25	25
Net working capital	1,472	950	1,022	928	1,160
Inventories	438	542	607	708	793
Sundry debtors	510	645	584	755	835
Short Term Loans and advances	161	165	209	150	161
Other current assets	0	23	59	38	33
Current liabilities	325	382	343	659	650
Provisions	39	43	92	65	13
Cash	123	127	218	368	416
Total assets	3,079	2,013	2,675	3,911	4,153

Source: Company, Ajcon Research



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