

Small Wonders

Sarla Performance Fibers Ltd

May 27, 2025



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Textiles	Rs 106	Buy in Rs 104-109 band and add on dips in Rs 87-92 band	Rs 138	Rs 153	4-6 quarters

HDFC Scrip Code	SARPEREQNR
BSE Code	526885
NSE Code	SARLAPOLY
Bloomberg	SRPL:IN
CMP May 26, 2025	106
Equity Capital (Rs Cr)	8.4
Face Value (Rs)	1.0
Equity Share O/S (Cr)	8.4
Market Cap (Rs Cr)	893
Book Value (Rs)	58.7
Avg. 52 Wk Volumes	64,623
52 Week High	132
52 Week Low	69

Share holding Pattern % (Mar, 2025)	
Promoters	56.9
Institutions	1.6
Non Institutions	41.5
Total	100.0



* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

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Our Take:

A Niche Yarn Powerhouse scaling Global Heights

Established in 1993, Sarla Performance Fibers Limited (SPFL) has pioneered High Tenacity Nylon 6 and 66 spinning capacity in India, dedicated to sewing and various other applications. The company specializes in the production and global export of polyester and nylon textured, twisted, and dyed yarns, along with covered yarns, high tenacity yarns, and sewing thread. It operates across 6 manufacturing plants, producing more than 250 types of products with its manufacturing plants located in Silvassa, Vapi, and Dadra. The company also has 12.75 MW of wind power generation and 1.4 MW of solar power generation capacity.

The company has a global presence in more than 62 countries and has 6 overseas subsidiaries (direct and indirect), comprising 2 wholly-owned and 4 step-down subsidiaries based in Portugal and the USA, which serve the European and South American markets. Throughout the years, SPFL has expanded its footprint by enhancing existing facilities in India and venturing into new overseas installations. Exports contributed 57.2% to the company's revenue in FY24.

Started as a basic yarn manufacturer, the company has strategically shifted to becoming an intricate, high-value yarn supplier. Its key competency lies in customizing its products to each customer's unique requirements. The company has built long-term relationships with marquee customers like Nike, Prada, Amante, Adidas, Calvin Klein, Fruit of the Loom, Tommy Hilfiger, Walmart, Target, Decathlon and Hanes, among others. SPFL grew its client base from 283 in FY23 to 336 in FY24, with ~65% of its revenue coming from customers with long-standing relationships with the company.

Due to its versatility, strength, durability, consistency, availability, and ease of maintenance, there is a growing preference for synthetic fibers over natural alternatives. Given its niche position in these value-added products, the company has massive potential for growth. Nylon is gaining prominence for its durability, quality enhancements, and desirable properties, including superior moisture absorption compared to polyester. SPFL plans to capitalize on this to increase the share of Nylon in the company's overall production to ~60% from the current 40%.

SPFL has curated a diverse product portfolio. With ~50% of its portfolio comprising value-added products, the company is well-placed to meet the industry's evolving demand for durable, high-performance yarn solutions. Renowned for its reliability, consistent performance, and a favourable balance of affordability and quality, the Sarla brand enjoys a strong reputation in the industry.

Valuation & Recommendation:

SPFL witnessed a challenging FY24 on account of subdued export realizations on the back of global headwinds despite its overall volume increasing from 12.27 lakh tons in FY23 to 12.39 lakh tons in FY24. FY25, however, witnessed gradual improvement in the global demand environment with improvement in input prices resulting in margin expansion. Revenue in FY25 grew by 11.4% after 2 years of de-growth. Gross margins improved by 752 bps YoY and EBITDA margin expanded by 582 bps YoY.

The company has spent nearly Rs 100 cr over the last 5 years upgrading equipment, resulting in significant new capacity and enhanced infrastructure. The company has increased Nylon 66 capacity from 1 TPD to 3 TPD and Nylon 6 capacity from 3 TPD to 8 TPD. These strategic investments in high-demand product categories are anticipated to increase sales volumes, realizations, and margins, consequently driving revenue to surpass Rs 600 cr in peak utilization.

Moreover, the company aims to capture incremental market share in India to c.10%, capitalizing on increasing demand for value-added products with applications in swimwear, athleisure, narrow fabrics, hosiery etc., over the next few years. The management anticipated 10-15% growth in domestic revenues over the next few years. It further expects a 4-5% improvement in operating margins in the India business due to the increase in sales. Overall, the company's export business remains steady. With increased focus on value-added products from recent capacity expansion, we expect the company's margins to remain robust going forward.

We believe investors can buy the stock in Rs 104-109 band (11.8x FY27E EPS) and add on dips in Rs 87-92 (10.0x FY27E EPS) band for a base case fair value of Rs 138 (15.2x FY27E EPS) and bull case fair value of Rs 153 (17x FY27E EPS) over the next 4-6 quarters.

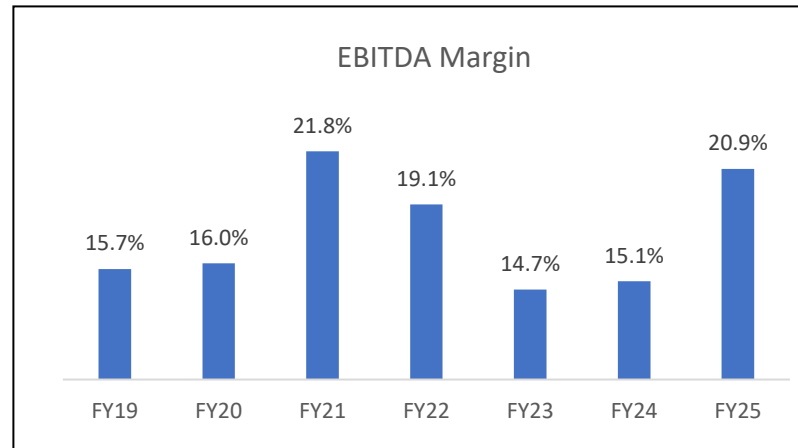
Financial Summary:

Particulars (Rs cr)	Q4FY25	Q4FY24	YoY-%	Q3FY25	QoQ-%	FY23	FY24	FY25	FY26E	FY27E
Operating Income	100	106	-5%	102	-2%	387	383	427	485	538
EBITDA	22	19	14%	26	-17%	57	58	89	98	110
APAT	13	11	10%	14	-8%	21	33	62	66	75
Diluted EPS (Rs)	1.5	1.4	10%	1.7	-8%	2.6	3.9	7.5	7.9	9.0
RoE-%						5.4	8.0	13.6	12.7	13.0
P/E (x)						41.7	27.0	14.3	13.5	11.8
EV/EBITDA (x)						17.1	16.9	11.4	12.6	11.1

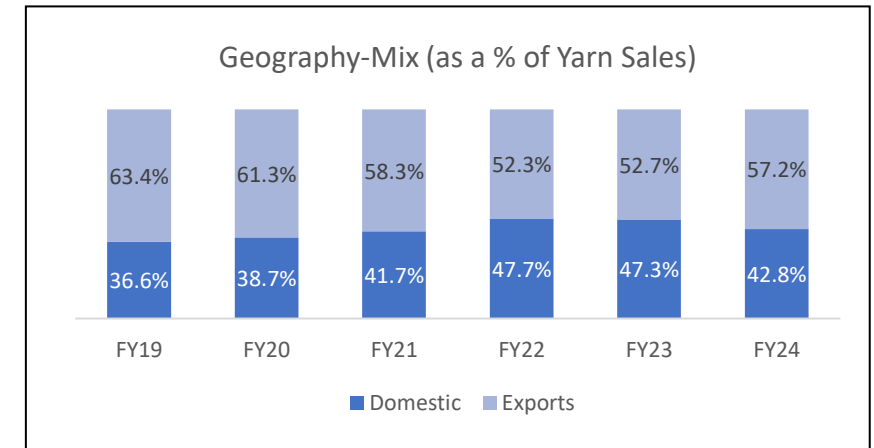
(Source: Company, HDFC sec)

Charts in Focus

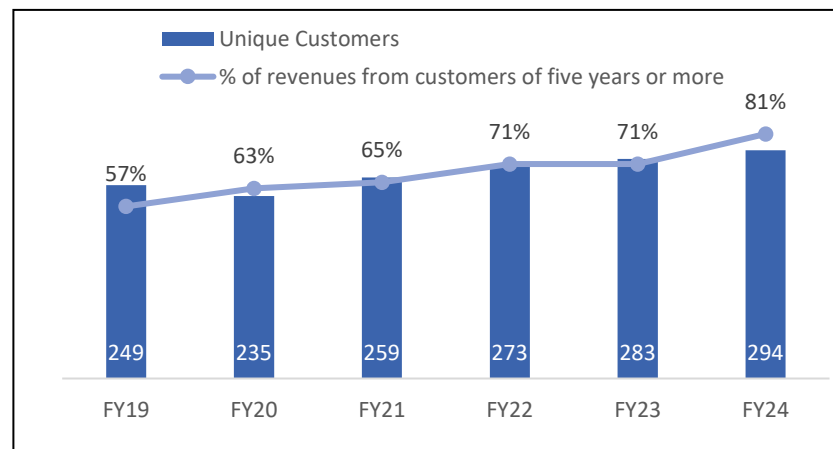
Strong double-digit margin profile in a competitive sector



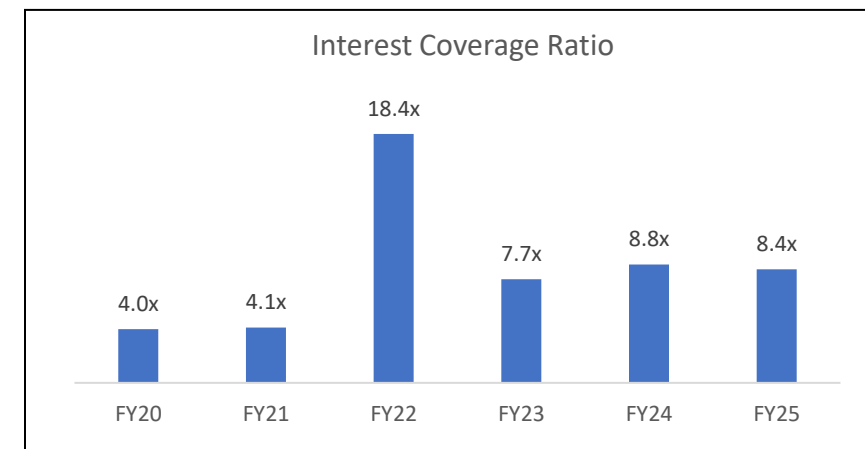
Increasing salience of domestic business in the company's revenue mix



Strong long-term relationship with customers



Improving financial strength



(Source: Company, HDFC sec)

Q4FY25 Result Update

- SPFL reported 5.2% YoY decline in revenue on a high base in Q4FY25.
- Gross margin improved significantly from 50.7% in Q4FY24 to 61.8% in Q4FY25 on the back of improved mix and operating leverage.
- EBITDA grew by 14.13% YoY on the back of higher revenues. EBITDA margin improved by 366 bps YoY to 21.6%.
- PAT grew 10.5% YoY to Rs 12.7 cr.

Key Triggers

A global play in polyester and high tenacity yarns

Established in 1993, SPFL has over the years specialized in the production and global export of polyester and nylon textured, twisted, and dyed yarns, along with covered yarns, high tenacity yarns, and sewing thread. The company's product portfolio consists of **Yarn Products** (Continuous filament yarns, high tenacity yarns and threads, dyed yarns covered spandex and lycra yarns), **Threads** (with applications in automobiles, premium footwear, high-end apparel, and embroidery) and **Applicative textiles** (Narrow fabrics, hosiery applications, medical bandages, knitted and denim fabrics, leather goods, soft luggage, automotive seat belts and trims, mops, towels, shoe uppers, automotive air bags, and upholstery, among other products). Moreover, the company has a strong global presence in more than 62 countries and has 6 overseas subsidiaries (direct and indirect) comprising 2 wholly owned and 4 step-down subsidiaries based in Portugal & USA, which serve the European and South American markets.

The company has transformed from a manufacturer of basic yarns at its inception to becoming an established player of intricate, high-value yarns. Its forte lies in tailoring products to meet each customer's unique requirements. The company is recognized as a leading supplier of yarns to top global brands, both through direct sales and indirect channels. Renowned for its reliability, consistent performance, and a favorable balance of affordability and quality, the Sarla brand enjoys a strong reputation in the industry.

Strong manufacturing infrastructure to go with its diverse product range

SPFL operates state-of-the-art manufacturing facilities in Silvassa, Vapi, and Dadra across 6 plants and 250+ product variants. It has developed an expertise in producing a variety of synthetic yarns encompassing a diverse product range across polyester and nylon textured yarns, twisted yarns, dyed yarns, covered yarns, high-tenacity yarns, and specialized sewing threads tailored for specific applications, with ~50% of its current product portfolio comprising value-added products. SPFL stands out as a unique producer of pure nylon and the sole Indian manufacturer of Nylon 66. Nylon yarn comprised 40% of the company's production volume in FY24.

Boasting a Colour Bank comprising over 5000 shades, SPFL's laboratory conjures an average of 8 new colours daily. SPFL also possesses automated dyeing vessels and systems, accommodating batch sizes of 1 kg to 500 kg and has an average machine age of less than 5 years. With an investment exceeding Rs 100 cr in the last 5 years, SPFL has modernized its existing facilities and expanded its production capacities, especially in the high tenacity nylons (6 and 6.6) and twisted yarns categories. This strategic move will transition revenue composition towards value-added products and enhance profit margins. The full benefits from this expansion are anticipated to materialize in FY25 as the production capacity ramps up. The management expects the nylon share to reach ~60% of its production volume over the next few years.

Increasing share of domestic revenues

The Indian textile market has witnessed a notable shift in customer preferences towards enhanced lifestyles and a willingness to invest in premium products over the last few years. SPFL has identified this trend and has increased its strategic focus towards increasing domestic revenues. The share of domestic business has increased from 36.6% in FY19 to 42.8% in FY24. The management aims to further enhance it to 55% - 60% levels in the next couple of years, riding the substantial growth potential in domestic markets. While global markets have witnessed some turmoil over the past couple of years due to geopolitical tensions and heightened inflation, domestic demand has been resilient. Moreover, India's young demographic, with a median age of approximately 28, indicates a robust economic potential among its active population. This demographic advantage drives increased demand for premium clothing, athleisure wear, and frequent wardrobe updates.

With Sarla being a leading manufacturer of elastic, socks, and sewing threads, it is primed to benefit from a favourable demand environment in India. Also, SPFL plans to direct its value-added yarns towards the Indian market, capitalizing on evolving consumer preferences. As part of its growth strategy, SPFL aims to expand its India operations by adding more sales personnel in coming years, enhancing market penetration and driving an anticipated 15%-20% annual sales growth in India, with an aim of securing a 10% share of the overall sales landscape. Additionally, the company expects a 4-5% improvement in operating margins in India due to increased sales.

Steady growth in exports business

SPFL's export business has shown resilience amid challenges in the global markets over the past couple of years. Export sales witnessed a growth of 6% in FY24 (6.6% CAGR between FY20-24), contributing ~57.2% of its yarn revenues during the year. The company is recognized as a trusted supplier to prestigious global brands, either directly or through intermediaries. The company is in more than 60 countries, with its client base growing from 283 in FY23 to 336 in FY24. Nylon 66, designated as a high-value niche product exclusively for export, exemplifies their premium market positioning and contributes to higher revenue realization. The company actively pursues new market opportunities, leveraging its reputation for reliability, consistent quality, and competitive pricing strategies.

Building lasting customer relationships through a client-centric approach

SPFL has adopted a collaborative approach to supply products to its clients and engage with customers to enhance their market presence and integrate into their long-term supply chains. This collaborative approach has fostered strong customer loyalty, with the company retaining 100% of its customer base and enjoying repeat orders from 90% of current clients in FY24. In FY24, around 65% of the company's revenue came from clients with longstanding relationships. 81% of the company's revenue came from customers of 5 years and more, as compared to 63% in FY19. The company's clientele includes some prestigious names like Nike, Prada, Amante, Adidas, Calvin Klein, Fruit of the Loom, Tommy Hilfiger, Walmart, Target, Decathlon and Hanes, among others.

Superior margin profile and improved financial strength

Despite operating in a capital-intensive and highly competitive industry, the company has achieved EBITDA margins in excess of 15%. Strategic debt and equity management practices have facilitated incremental growth while ensuring financial stability. Sarla has maintained a healthy debt-equity ratio of 0.24x in FY24, reduced from 0.73x in FY20. The company's interest coverage ratio has improved from 4.0x to 8.8x during this period. With the company already having invested ~Rs 100 cr to enhance its manufacturing capabilities over the last 5 years, no significant capital expenses are expected in the near term. Improved raw material environment, increased sales from domestic business and improved product mix are expected to drive profitability further.

Risks & Concerns:

Raw material prices

Polyester and nylon production is directly linked to crude oil prices with crude derivatives being a key raw material component. Any material fluctuation in raw material prices, especially in crude and its derivatives may impact the company's margins.

Inventory price deflation may lead to muted demand

The textile industry has faced a challenging past couple of years leading to pile up of inventories with retailers and as a result, H1FY24 witnessed deflation in inventory prices. As a result, the demand continued to remain muted in H1FY24. However, some green shoots have been visible in H2FY24 with revival in demand resulting in retailers intending to resort to restocking. However, if the inventory prices continue to deflate, demand recovery may be delayed.

Geopolitical headwinds may impede exports growth

The demand situation in the key export markets, especially in the Europe has been volatile over the last 2 years. Global brands and retailers remained cautious in the backdrop of the persistent geopolitical tensions, inflation spikes and energy crisis, along with cost pressures and a tightening monetary policy to fight the same. Higher than target inflation in the US, continuing war in Europe, and reopening of China have been the key factors contributing to the cautious approach.

Forex risk

SPFL is exposed to forex risk with exports constituting majority of the company's revenue and the company having operations in more than 60 countries.

Company Background

Established in 1993, Sarla Performance Fibers Limited (SPFL) manufactures various types of polyester and nylon yarns. The company specialises in the production and global export of polyester and nylon textured, twisted, and dyed yarns, covered yarns, high tenacity yarns, and sewing thread. Beginning as a manufacturer of commodity yarns, the Company established itself as a manufacturer of specialised and higher value-added yarns. Their strength lies in customising the product per each individual's requirements and specifications. SPFL's manufacturing facilities are situated outside Mumbai in Silvassa and Vapi.

In 2009, the Company established a joint venture in Portugal, Sarla Europe LDA. In 2010, it installed first windmill in Gujarat; in 2011, it started joint venture operations in Turkey; installed windmills in Satara, Maharashtra for 2MW; it installed total wind power generation capacity of 3.25 MW in 2011; in 2012, 2 more windmills of 2 MW each started operations in September 2012. The Company incorporated a wholly owned subsidiary in the name of 'Sarla Flex Inc' in South Carolina, USA, to manufacture and market yarn to the USA and neighbouring markets in 2013. The company commissioned its new plant in Dadra in 2019 and further enhanced its capacity in the last 5 years. The company's clientele includes some prestigious names like Nike, Prada, Amante, Adidas, Calvin Klein, Fruit of the Loom, Tommy Hilfiger, Walmart, Target, Decathlon and Hanes, among others.

Key Milestones	
1993	Sarla polyester Private Limited was formed as a 100% Export Oriented Unit (EOU)
1995	Established its first manufacturing unit in Silvassa at the Amli Piparia Industrial Area for polyester textured yarn.
1996	Established an in-house dyeing plant in Vapi, Gujarat
1999	Shifted focus from commodity yarns to value-added products. Introduced a slew of new products beginning with covered yarns. Among the first to produce and conventional covered rubber/ spandex yarns from India
2004	Established the second manufacturing unit in Silvassa to enhance production
2006	Change in the Company's name from Sarla Polyester Limited to Sarla Performance Fibers Limited (SPFL). Established the first joint venture overseas in Honduras under the name of Savitex S.A. de C.V. Set up a spinning plant for the conversion of nylon chips into high tenacity Nylon 6 and Nylon 66 industrial yarns.
2009	Established a marketing subsidiary in Portugal, Sarla Europe LDA, to service Europe. Extended into wind power generation. Commissioned the first 1.25 MW wind turbine generator in Gujarat.
2013	Commenced the manufacture of Nylon 66 high tenacity yarn, the first to manufacture this niche product in India.
2017	5 new windmills setup with 7.5MW Capacity
2019	Commissioned a new plant in Dadra.
2022	Varied new plants were installed with an aim to boost the overall productivity
2024	GODET Tech M/c for Barre Free Yarn, 1st In India...

(Source: Company, HDFC sec)

Financials

Income Statement

Particulars (in Rs Cr)	FY22	FY23	FY24	FY25	FY26E	FY27E
Net Revenues	431	387	383	427	485	538
Growth (%)	67.1	-10.1	-1.1	11.4	13.5	11.0
Operating Expenses	349	331	325	338	387	428
EBITDA	82	57	58	89	98	110
Growth (%)	46.1	-30.9	1.8	54.4	9.9	12.4
EBITDA Margin (%)	19.1	14.7	15.1	20.9	20.3	20.5
Depreciation	27	30	28	25	26	28
Other Income	12	10	21	25	27	30
EBIT	68	37	51	90	99	112
Interest expenses	4	5	6	11	14	12
PBT	64	32	45	79	85	101
Tax	18	11	12	16	19	25
PAT	46	21	33	62	66	75
Share of Asso./Minority Int.	0	0	0	0	0	0
Adj. PAT	46	21	33	62	66	75
Growth (%)	76.3	-53.9	54.2	89.5	5.8	14.1
EPS	5.5	2.6	3.9	7.5	7.9	9.0

Balance Sheet

Particulars (in Rs Cr) - As at March	FY22	FY23	FY24	FY25	FY26E	FY27E
SOURCE OF FUNDS						
Share Capital	8	8	8	8	8	8
Reserves	380	387	420	482	520	566
Shareholders' Funds	388	395	428	490	529	575
Minority Interest	0	0	0	0	0	0
Total Debt	135	109	137	181	181	181
Other Non-Curr. Liab	1	1	1	1	1	1
Net Deferred Taxes	24	23	23	19	19	19
Total Sources of Funds	549	527	590	691	730	776
APPLICATION OF FUNDS						
Net Block & Goodwill	232	259	240	239	238	235
CWIP	16	0	0	0	0	0
Investments	51	125	194	286	286	286
Other Non-Curr. Assets	20	6	6	5	6	7
Total Non-Current Assets	319	391	440	530	530	528
Inventories	109	98	85	100	113	125
Debtors	100	61	91	94	106	118
Cash & Equivalents	4	5	4	2	22	50
Other Current Assets	95	26	31	26	29	32
Total Current Assets	309	190	211	223	270	326
Creditors	43	32	39	32	40	44
Other Current Liab & Provisions	36	21	22	30	30	33
Total Current Liabilities	79	53	61	62	70	78
Net Current Assets	230	137	150	161	200	248
Total Application of Funds	549	527	590	691	730	776

Cash Flow Statement

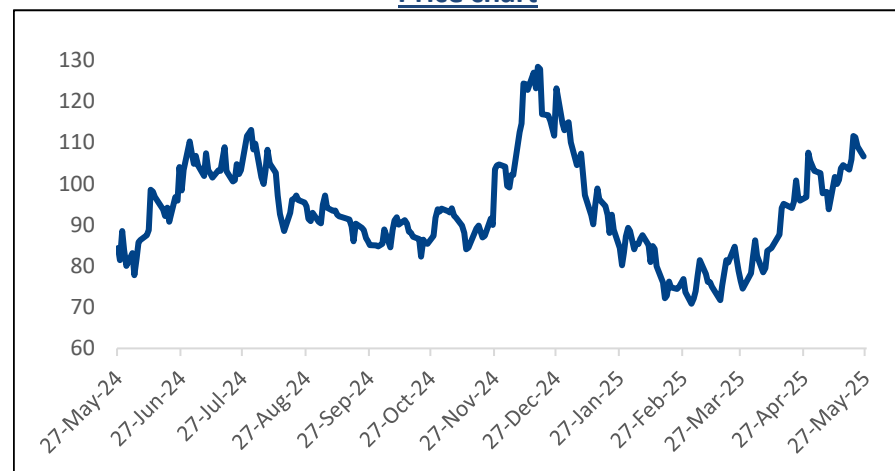
Particulars (in Rs Cr)	FY22	FY23	FY24	FY25	FY26E	FY27E
Reported PBT	64	32	45	79	85	101
Non-operating & EO items	-11	-3	-17	-6	-1	-1
Interest Expenses	4	5	6	10	14	12
Depreciation	27	30	28	25	26	28
Working Capital Change	-28	50	-19	-28	-20	-20
Tax Paid	-19	-12	-11	-18	-19	-25
OPERATING CASH FLOW (a)	37	102	31	62	85	94
Capex	-59	-47	-9	-21	-25	-25
Free Cash Flow	-22	55	22	42	60	69
Investments	0	-73	-54	-73	0	0
Non-operating income	33	64	7	4	0	0
INVESTING CASH FLOW (b)	-26	-56	-56	-90	-25	-25
Debt Issuance / (Repaid)	-14	-24	30	37	0	0
Interest Expenses	0	-5	-6	-11	-14	-12
FCFE	-3	17	-1	-1	46	58
Share Capital Issuance	0	0	0	0	0	0
Dividend	-4	-17	0	0	-27	-29
Others	0	0	0	0	0	0
FINANCING CASH FLOW (c)	-18	-46	24	27	-41	-41
NET CASH FLOW (a+b+c)	-7	1	-1	-1	19	28

Key Ratios

Particulars	FY22	FY23	FY24	FY25	FY26E	FY27E
Profitability Ratios (%)						
EBITDA Margin	19.1	14.7	15.1	20.9	20.3	20.5
EBIT Margin	15.8	9.6	13.3	21.0	20.4	20.9
APAT Margin	10.7	5.5	8.6	14.6	13.6	14.0
RoE	12.7	5.4	8.0	13.6	13.0	13.6
RoCE	13.4	7.2	9.5	14.5	14.3	15.3
Solvency Ratio (x)						
Net Debt/EBITDA	1.6	1.8	2.3	2.0	1.6	1.2
Net D/E	0.3	0.3	0.3	0.4	0.3	0.2
PER SHARE DATA (Rs)						
EPS	5.5	2.6	3.9	7.5	7.9	9.0
CEPS	8.7	6.1	7.3	10.5	11.0	12.3
BV	46.5	47.3	51.3	58.7	63.3	68.8
Dividend	2.2	0.0	0.0	3.0	3.3	3.5
Turnover Ratios (days)						
Debtor days	82	76	72	79	76	76
Inventory days	76	98	87	79	80	81
Creditors days	30	35	34	30	27	29
Valuation (X)						
P/E	19.2	41.7	27.0	14.3	13.5	11.8
P/BV	2.3	2.3	2.1	1.8	1.7	1.5
EV/EBITDA	12.2	17.1	16.9	11.4	10.2	8.8
EV / Revenues	2.3	2.5	2.5	2.4	2.1	1.8
Dividend Yield (%)	2.1	0.0	0.0	2.8	3.1	3.3
Dividend Payout (%)	39.7	0.0	0.0	40.2	41.1	38.8

(Source: Company, HDFC sec)

Price chart



(Source: Company, HDFC sec)

HDFC Sec Prime Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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