

December 20, 2024

S.N.Q.S Internationals Private Limited: [ICRA]BB(Stable)/[ICRA]A4; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based- Export Packing Credit	20.20	[ICRA]BB(Stable); assigned
Long term - Fund based- Term loan	10.00	[ICRA]BB(Stable); assigned
Long term/Short term - Unallocated	14.80	[ICRA]BB(Stable)/[ICRA]A4; assigned
Total	45.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned ratings on the bank lines of S.N.Q.S International Private Limited (SIPL) considers the extensive experience of the promoters in garment exports, long relationship with established brands, and the expected long-term benefits accruing from the ongoing capacity expansion. After posting healthy revenue growth in FY2022 and FY2023, SIPL's revenues declined by around 9% on a YoY basis to Rs. 107.4 crore in FY2024 due to tepid demand in key export markets. A marginal revenue growth is expected in FY2025 with the likely commencement of socks manufacturing operations from Q4 FY2025.

The ratings, however, are constrained by high working capital intensity with higher inventory holding period and debt-funded capacity additions being undertaken at present. SIPL is setting up a socks manufacturing unit and a 0.7-MW solar power plant at a cost of Rs. 23.5 crore (over FY2024 and FY2025), funded through a term loan of Rs. 8.1 crore and the balance through internal accruals/ unsecured loans from promoters. SIPL's coverage metrics moderated with interest coverage ratio and DSCR of 2.1 times and 1.3 times, respectively in FY2024 compared to 3.6 times and 1.7 times, respectively in FY2023. While the debt coverage indicators are expected to remain modest over the near term, benefits derived from these expansions are expected to improve its operating profitability over the medium term. The ratings also remain constrained because of its moderate scale of operations amid intense competition, which limits its pricing flexibility. Further, the ratings remain exposed to demand trends in key export markets, fluctuations in raw material prices and volatility in exchange rates.

The Stable outlook on the long-term rating reflects ICRA's expectation that SIPL is likely to improve its earnings and coverage metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, to further increase the capacity will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

Key rating drivers and their description

Credit strengths

Established track record of promoters – The promoters of SIPL have more than two decades of experience in the textile industry. The experience of the promoters has enabled them to expand the business and meet the requirements of reputed players. Over the past four fiscals, its revenues have increased by 12.6% (CAGR) to Rs.107.4 crore in FY2024.

Long relationship with its established brands and production capacities – SIPL has established partnerships with major international customers, such as Harley Davidson, Primark Group, Otto GmbH, and many others. SIPL's volume offtake has remained steady with its end customers over the years. Further, the entity has its in-house embroidery, and apparel manufacturing units with a capacity to manufacture 6 lakh pieces per month and its offerings remain diversified across

products and end users. The entity derives 62.5% of its income from the sale of women's garments, 25.4% from men's garments and the balance from kid's garments.

Credit challenges

Moderate scale of operations, high working capital intensity and debt-funded capacity expansion likely to moderate its coverage indicators – SIPL's scale of operations remains modest, with limited revenue growth as capacity constraints are limiting the economies of scale. Further, SIPL's financial profile is characterised by modest leverage and coverage indicators, due to the working capital intensive nature of operations and ongoing debt-funded capex. Besides, lower earnings resulted in weakening of its debt protection metrics with total debt to operating profits and interest coverage ratios weakening to 5.8 times and 2.1 times, respectively, in FY2024 from 3.6 times and 3.6 times, respectively, in FY2023. While its revenues and earnings are likely to improve in the medium term, coverage metrics are expected to remain moderate due to considerable debt repayment obligations.

Exposure to client concentration risk, volatility in raw material prices, and demand trends in key export markets – SIPL's revenues remain exposed to customer concentration, with the top five customers contributing around 66.4% to its revenues in FY2024 (58.2% in FY2023). Further, a major portion of the business is generated from the US and the UK markets, which exposes its earnings to demand trends, regulations and duty structures across these markets. However, comfort can be derived from the strong profile of SIPL's customers and long associations with these customers, along with an established track record of repeat orders. Like other apparel exporters, SIPL's earnings remain exposed to the fluctuations in raw material prices and exchange rates on the back of intense competition, limiting the pricing flexibility. Further, high dependence on export incentives exposes its profitability and competitiveness in the international markets to any adverse change in the export incentive structure.

Liquidity position: Stretched

SIPL's liquidity position is expected to remain stretched, considering the limited buffer available in its working capital borrowings. Its average fund-based utilisation for the last 12 months ending in October 2024 stood at 98.3% of its sanctioned limit of Rs. 20.2 crore. Further, it has planned capital expenditure of ~Rs. 15 crore to be incurred in FY2025, funded through a term debt of Rs. 4.7 crore and internal accruals/unsecured loans from promoters. The company is likely to generate adequate cash flows to meet its debt repayment obligations of Rs.2.5 crore in FY2025. SIPL is likely to receive support from promoters in case of any funding requirement for working capital and term loan repayment, and the same would be a key rating monitorable.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company's revenues and profitability increase, leading to an improvement in the overall financial risk profile. Specific credit metric that could lead to ratings upgrade includes an interest coverage of more than 2.8 times on a sustained basis.

Negative factors – The ratings could witness a downward revision in case of any adverse impact on the revenue or profitability of the company, resulting in a deterioration in debt protection metrics on a sustained basis. Further, an elongation of the working capital cycle, which would adversely impact the liquidity position on a sustained basis, could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles -Apparels
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity

About the company

S.N.Q.S. International Private Limited was incorporated in 2016 by transfer of the manufacturing and export divisions of SNQS International (a sole proprietorship firm). It is a closely held company and is managed by Mr. Elangovan and Mrs. Shanthi Elangovan. SIPL exports readymade garments mainly to the US and the UK. The company's production unit is at Tirupur with an installed capacity of 6 lakh pieces per month and has 450 sewing machines. SIPL is setting up its socks manufacturing unit at Tirupur at present.

Key financial indicators (audited)

	FY2023	FY2024	H1 FY2025*
Operating income	118.0	107.4	52.6
PAT	3.2	1.5	1.9
OPBDIT/OI	6.5%	5.0%	7.4%
PAT/OI	2.7%	1.4%	3.5%
Total outside liabilities/Tangible net worth (times)	4.4	5.7	4.7
Total debt/OPBDIT (times)	3.6	5.8	4.3
Interest coverage (times)	3.6	2.1	2.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; *Provisional

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

CRA	Date of PR	Rating
CRISIL	July 16, 2024	CRISIL B+/Stable/ CRISIL A4 (ISSUER NOT COOPERATING*; Rating Withdrawn)

Any other information: None

Rating history for past three years

Instrument	Type	Current rating			Chronology of rating history for the past 3 years					
		FY2025			FY2024		FY2023		FY2022	
		Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund based	Long-term	20.20	20-Dec-2024	[ICRA]BB (Stable)	-	-	-	-	-	-
Term Loan	Long-term	10.00	20-Dec-2024	[ICRA]BB (Stable)	-	-	-	-	-	-
Unallocated	Long-term and Short-term	14.80	20-Dec-2024	[ICRA]BB (Stable)/ [ICRA]A4	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based- Export Packing Credit	Simple
Long term - Fund based- Term loan	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	Export Packing Credit	NA	NA	NA	20.20	[ICRA]BB (Stable)
NA	Term Loan	FY2022-FY2024	NA	FY2027-FY2029	10.00	[ICRA]BB (Stable)
NA	Unallocated	NA	NA	NA	14.80	[ICRA]BB (Stable)/ [ICRA]A4

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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