

S. P. Apparels Limited

Instruments	Amounts (Rs. Crore ¹)	Rating Action
Long-term: term loan facilities	14.76 (revised from 48.30)	[ICRA]BBB+ (Stable); upgraded from [ICRA]BB
Long-term: fund based facilities	20.0	
Short-term: fund based facilities	115.0	[ICRA]A2; upgraded from [ICRA]A4
Short-term: fund based facilities (sub-limit)	(20.00)	[ICRA]A2; assigned
Long-term / short-term: Unallocated	33.54	[ICRA]BBB+ (Stable) / [ICRA]A2; assigned

ICRA has upgraded the long-term rating outstanding on the Rs.14.76 (revised from Rs 48.3 crore) term loans and the Rs. 20.0 crore fund based facilities of SP Apparels Limited (SPAL/ “the Company”) to [ICRA]BBB+ (pronounced ICRA triple B plus) from [ICRA]BB (pronounced as ICRA double B)². The outlook on the long-term rating is stable. ICRA has also upgraded the short-term rating outstanding on the Rs. 115.0 crore fund based facilities of SPAL to [ICRA]A2 (pronounced ICRA two) from [ICRA]A4 (pronounced ICRA A four). ICRA has assigned a short-term rating of [ICRA]A2 to the Rs.20.00 crore sub-limit facilities and the long-term / short-term rating of [ICRA]BBB+ (Stable) / [ICRA]A2 to the Rs.33.54 crore unallocated facilities of the company.

The ratings upgrade reflects the improvement in SPAL’s financial profile with the completion of the Rs.215.0 crore initial public offering (IPO) in August 2015. Proceeds from the same have been utilised for retiring debt to the tune of Rs.63.0 crore which has moderated the gearing from 2.6 times as on March 31, 2016 to 0.5 times as on August 24, 2016. Of the remaining proceeds, Rs. 75.1 crore is expected to be utilised for backward integration purposes like addition of spindle capacity, setting up of knitting unit, expanding preparatory process capacity for spinning unit and modernisation of dyeing facility. The same will aid the company in effective integration of operations resulting in expansion of margins as proportion of in-house processes will increase. The company is also planning to open 70 new showrooms under the *Crocodile* brand over the next three years which will increase its domestic presence with Rs.27.8 crore set aside for the same. Of the remaining Rs.49.1 crore, Rs.16.0 crore have been utilised for IPO issue expenses while the remaining will be used to meet working capital and other corporate requirements. The ratings remain supported by SPAL’s strong operational profile, its established market position in the export of children’s garments (knit-wear; which accounts for bulk portion of its revenues), promoter’s long-standing experience in the textile industry, their established relationships with reputed clientele and the fairly integrated nature of operations with presence across the garment value chain which supports the operating efficiencies.

The ratings are however constrained by the moderately stretched working capital intensity and high customer concentration risks with ~95% of export revenues derived from top five customers. The company is also exposed to the intense competitive pressures in the readymade garments industry (both domestic as well as international players) and possible exposures to the impact of Brexit which can affect the company’s pricing flexibility to a certain extent.

Company Profile

Promoted as a partnership firm by Mr. P. Sundararajan in 1989 and incorporated in November 2005 as a public limited company, SPAL is now listed in both Bombay Stock Exchange and National Stock Exchange post the Initial Public Offering which was concluded in August 2016. The company is an integrated readymade garment manufacturer engaged in spinning, processing (dyeing), garmenting (sewing), printing and embroidery of 100% cotton garments. SPAL has its manufacturing facilities located in and around Coimbatore (knitting, processing, garmenting, and printing and embroidery facilities) and Salem (spinning facility) in Tamil Nadu. The company caters primarily for exports to renowned brands/ marketers in the European Union (EU). SPAL entered the domestic retail market in FY2017 by acquiring a 70 per cent equity stake in Crocodile Products Private Limited,

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, refer ICRA’s website (www.icra.in) or other ICRA rating publications.



the Indian arm of the Singapore-based Crocodile International Private Limited (which markets the menswear brand, *Crocodile*).

Recent Results

On standalone basis for Q1 FY2017, SPAL reported profit after tax (PAT) of Rs.13.3 crore on an operating income (OI) of Rs.161.8 crore against PAT of Rs.7.1 crore on an OI of Rs.126.2 crore during Q1 FY2016. During FY2016 the company reported PAT of Rs.20.5 crore on OI of Rs.541.1 crore as against PAT of Rs.10.4 crore and OI of 481.7 crore during FY2015.

On consolidated basis for Q1 FY2017, SPAL reported PAT of Rs.15.6 crore on an OI of Rs.162.4 crore against PAT of Rs.6.7 crore on an OI of Rs.121.8 crore during Q1 FY2016. During FY2016 the company reported PAT of Rs.18.7 crore on OI of Rs.532.8 crore as against PAT of Rs.7.8 crore and OI of 472.6 crore during FY2015.

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