

September 15, 2022

SAPL Industries Pvt Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	10.00	55.00	[ICRA]BB+(Stable); reaffirmed
Short term – Fund based/EPD/PCFC/FBD	45.00	-	-
Short Term – Non-Fund based/Letter of Credit/Bank guarantee	25.00	25.00	[ICRA]A4+; reaffirmed
Long/Short Term – Unallocated	10.00	10.00	[ICRA]BB+(Stable)/[ICRA]A4+; reaffirmed
Total	90.00	90.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation derives comfort from the extensive experience of the promoters and management team of SAPL Industries Pvt Ltd (SAPL) in the readymade garments industry and the company's established track record in the garment export business. The ratings also derive comfort from its established relationships with its customers, ensuring repeat orders. The firm's revenues have increased by 49% in FY2022 due to better demand conditions. However, higher raw material prices and elevated input costs have affected the operating margins of the entity. Revenues in FY2023 are likely to surpass the level seen before the pandemic owing to addition of new customers and a healthy order book.

However, the ratings remain constrained by the company's high reliance on its top five customers, and intense competition from players in the low-cost apparel manufacturers in other Asian countries. The capital structure of the company has remained stretched with Total Debt/OPBITDA of 8.4 times and interest coverage ratio of 1.4 times for the year ended March 31, 2022. Further, high repayment obligations going forward on account of unsecured loans and zero coupon optionally convertible debentures (ZOCD) are likely to exert pressure on SAPL's liquidity, going forward. Nonetheless, comfort is drawn from the fact that the loans have been taken from friends and families where the repayment obligations are negotiable, which mitigate concerns to some extent. ICRA also factors in the exposure of the company's margins to foreign exchange rate fluctuations, Government regulations and duty structures across the markets.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's expectation that SAPL will continue to benefit from the established relationship with its reputed customers and management strategies adopted to improve the company's revenue growth, going forward.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and senior management in garment industry – SAPL has been in the apparel manufacturing segment for two decades. The company also has presence in lower, medium and premium segments. In addition to the promoters, SAPL has an experienced senior management team with more than 30 years of experience in the garments industry.

Established relationship with reputed international clientele – SAPL's main customers include major international retailers like ITX Trading (including brands such as Lefties, Pull & Bear, Stradivarius, Zara and Bershka), Primark Stores Limited, C&A, Tendam (including brands such as Cortefiel, Springfield, Women' Secret, Pedro del Hierro, and Fifty Factory), Bestseller and The Children's Place, among others. Established relationship with these clientele, quality products and timely order execution

helped the company get repeat orders from existing customers and acquire new customers. In FY2023, in the domestic market, it added another key client – Trent Limited.

Credit challenges

High customer concentration – Notwithstanding the long-term client relationships, the company is exposed to high customer concentration risk with around ~76% of its revenues derived from the top five customers in FY2022. The same has increased from ~60% in FY2021. However, comfort can be drawn from the fact that SAPL has established relationships with most of these clients, which result in repeat orders.

Vulnerability of profitability to any adverse foreign exchange fluctuations and regulatory risks – As SAPL is primarily an export-oriented company, its margins are exposed to fluctuations in foreign exchange rates. It exports primarily to the US, the UK, Europe etc and receives payments in dollar and euro. The forex risk, however, is mitigated to an extent by the hedging policy undertaken by the company. This apart, incentives form a significant portion of the company’s operating profits. Hence, any variation in the incentive rates also impacts its profitability.

Liquidity position: Adequate

SAPL’s liquidity is adequate, supported by free cash and bank balances of Rs. 4.9 crore as on March 31, 2022. Also, SAPL does not have major capex plans in the near future. ICRA expects SAPL to comfortably service its debt obligations as net cash accruals are expected to further improve in FY2023 and FY2024.

Rating sensitivities

Positive factors – ICRA could upgrade SAPL’s ratings if the company can improve its capital structure and debt protection metrics. More efficient working capital management, as SAPL pursues its growth objectives, would also be a key for higher ratings. Specific credit metrics that could lead to an upgrade of ratings include OPBDITA/Interest of more than 3.0 times on a sustained basis.

Negative factors – Pressure on SAPL’s ratings may arise if any material reduction in the company’s profitability and cash accruals or high working capital intensity tightens its liquidity position. Specific credit metrics that could lead to a downgrade of ratings include DSCR below 1.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry - Apparels
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

SAPL was incorporated in April 2001 as Creative Spinning & Weaving Private Limited. The name of the company was changed to Sonal Apparel Private Limited with effect from February 2, 2009. The name was again changed to SAPL Industries Pvt. Ltd. with effect from June 16, 2015. The company manufactures and exports garments to customers located in the US, the UK and Europe. At present, it has an installed capacity of 66 lakh pieces per annum. The company primarily exports to customers like ITX Trading, Primark, C&A, The Children’s Place, Tendam and Bestseller etc.

In FY2022, the company reported a net profit of Rs. 3.8 crore on an operating income (OI) of Rs. 211.6 crore compared to a net profit of Rs. 1.5 crore on an OI of Rs. 142.0 crore in FY2021.

Key financial indicators (audited)

SAPL	FY2021	FY2022 (Provisional)
Operating income	142.0	211.6
PAT	1.5	3.8
OPBDIT/OI	8.19%	4.90%
PAT/OI	1.04%	1.78%
Total outside liabilities/Tangible net worth (times)	1.7	1.9
Total debt/OPBDIT (times)	7.0	8.4
Interest coverage (times)	1.6	1.4

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
				15-Sep-22	28-Jan-22	31-Dec-20	02-Dec-20	15-Oct-19
1 Cash Credit	Long term	55	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2 EPC/PCFC/FBD	Short term	-	-		[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
3 Letter Of Credit/ Bank Guarantee	Short term	25	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
4 Unallocated	Long term and short term	10	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Letter of Credit/Bank Guarantee	Very Simple
Unallocated	NA

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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	55.00	[ICRA]BB+(Stable)
NA	Letter of Credit/ Bank Guarantee	-	-	-	25.00	[ICRA]A4+
NA	Unallocated	-	-	-	10.00	[ICRA]BB+(Stable)/A4+

Source: SAPL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Kaushik Das

+91 33 7150 1104

kaushikd@icraindia.com

Vipin Jindal

+91 124 4545355

vipin.jindal@icraindia.com

Nilesh Kumar Jain

+91 44 4596 4319

nilesh.jain@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.