

September 18, 2023

Silver Crest Clothing Private Limited: Ratings upgraded to [ICRA]A (Stable)/[ICRA]A1; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based sub-limits	(10.00)	(10.00)	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Short-term - Fund-based facilities	133.00	138.00	[ICRA]A1; upgraded from [ICRA]A2+, assigned for enhanced amount
Total	133.00	138.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings upgrade factors in the consistent improvement in the performance of Silver Crest Clothing Private Limited (SCPL) in FY2022 and FY2023¹, along with expectations that the same would continue in FY2024. SCPL's performance improved on the back of its strong product portfolio and healthy order book position. The company had orders worth ~\$35 million as of end-July 2023, which coupled with a steady demand is likely to drive revenue growth in the current fiscal. Besides an increase in volumes, the operating margin had improved to 9.5% in FY2023 from 4.7% in FY2022 due to higher realisations and benefits of scale. ICRA expects the operating margin to be in the range of 8.5-9% in FY2024. SCPL's credit profile is supported by a strong liquidity position and healthy coverage metrics.

The ratings are constrained by high customer concentration risk with the top five customers contributing around 63% to its overall revenues (against 64% in FY2022). Nevertheless, revenues from new customers are expected to improve in the long term. SCPL has high working capital intensity, however, the same had improved to 33.4% in FY2023 from 48.3% in FY2022. The company remains exposed to external risk factors, such as regulations and duty structures across the markets and fluctuations in input prices, given the limited pricing power enjoyed with established buyers.

The Stable outlook reflects ICRA's expectation that the operational and financial performances of SCPL will continue to benefit from its established presence in the industry, a healthy order book position, aided by repeat orders from key customers, and comfortable capitalisation levels, despite high working capital requirements in the business.

Key rating drivers and their description

Credit strengths

Established presence and strong customer base – SCPL is an established manufacturer and exporter of men's formal wear, and is among the larger organised exporters of jackets and trousers. It specialises in these product categories owing to relatively lower competition among the apparel exporters from India, and the value-added nature of jackets and suits. SCPL exports to large renowned retailers across the US and Europe and enjoys extensive relationships with its customers, which helped it in receiving recurring orders from key customers over the years.

Comfortable capitalisation levels and coverage metrics – SCPL's financial profile is characterised by a comfortable capital structure, strong liquidity position and healthy coverage metrics, despite high working capital requirements in the business. Over the years, a sizeable portion of the working capital requirements was funded by internal accruals, limiting dependence

¹ FY2023 numbers are Provisional

on external debt. Also, its dependence on external debt had further reduced in FY2023. Its total debt had reduced to Rs.87.3 crore as on March 31, 2023 (previous year – Rs. 116.8 crore). SCPL's key capital ratios remained comfortable, including gearing and TOL/TNW, which stood at 0.5 times and 0.9 times in FY2023.

Credit challenges

High customer concentration – SCPL's customer and geographical concentration remains high. Thus, its revenues and earnings are exposed to the volatility in the performance of its top-5 customers, which account for ~63% of its turnover. The company's performance is also susceptible to regulations and duty structures across the markets. The risk is mitigated to an extent by the established relationship that SCPL enjoys with its key clientele, as reflected in the repeat business generated over the years. Further, addition of new customers in the last two years mitigates the concentration risk marginally.

Working capital intensive nature of operations and limited pricing flexibility – SCPL's operations are characterised by high working requirement with NWC/OI² of around 33.4% at the end FY2023. Despite a high working capital intensive business, the ratio has improved from 47.6% reported in FY2022 on account of reduction in inventory holding and effective management of receivables. Further, SCPL's operating margins remain constrained by rising input costs, relatively lower scale and limited pricing flexibility enjoyed with key customers on the back of intense competition from other major garment exporting nations.

Liquidity position: Strong

SCPL's liquidity position is expected to remain strong in the medium term, supported by better earnings and improvement in the working capital cycle. The company had a cash buffer of ~Rs. 17.7 crore as of March 2023. The average utilisation of its working capital limits over the last 12 months ending in June 2023 stood at around 74%. Further, with no debt repayment obligation and limited capital expenditure requirements of around Rs. 10 crore estimated over the next 12 months, the overall liquidity position is expected to improve in FY2024 with net cash accruals of around Rs. 35 crore.

Rating Sensitivities

Positive factors – ICRA may upgrade SCPL's ratings if there is a significant improvement in the scale of operations while maintaining profitability, along with diversification in its product and customer profiles. Specific metric, which could result in ratings upgrade, include the ROCE improving to more than 20% on a sustained basis.

Negative factors – Inability to improve the working capital cycle or sustained pressure on the operating performance, adversely impacting SCPL's debt protection metrics and liquidity position, could result in ratings downgrade. Further, any cash outflow towards promoters in the form of share buyback or dividend could also exert pressure on the ratings. Specific credit metrics, which may trigger ratings downgrade include the interest cover reducing to less than 5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles - Apparels
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SCPL. Details of its wholly owned subsidiary and two associate companies have been provided in Annexure-2.

² NWC/OI – Net working capital to operating income

About the company

SCPL was incorporated in 1993 as a garment manufacturing export house and is one of the largest manufacturers of jackets, vest coats and trousers in the country. SCPL sells primarily to retailers in the US and European markets, with exports accounting for ~90% of its revenues. Besides, the company has presence in the domestic market with its in-house brand, Theme, which started in 1995. SCPL has a wholly-owned subsidiary, Carreman Silvercrest Clothing (India) Private Limited, which undertakes job work for SCPL.

Key financial indicators (audited)

Silver Crest Clothing Private Limited	FY2021	FY2022	FY2023*
Operating income (Rs. crore)	220.8	345.9	544.4
PAT (Rs. crore)	-0.8	11.3	30.1
OPBDIT/OI	-1.4%	6.1%	9.5%
PAT/OI	-0.4%	3.3%	5.5%
Total outside liabilities/Tangible net worth (times)	0.8	1.2	0.9
Total debt/OPBDIT (times)	-19.3	5.6	1.7
Interest coverage (times)	-2.0	19.7	10.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation *FY2023 numbers are provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)			Chronology of Rating History for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					September 18, 2023	July 28, 2022	Apr 22, 2021	-
1	Fund-based sub-limits	Long-term	(10.00)	-	[ICRA]A (Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-
2	Fund-based limits	Short term	138.0	--	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	-

Amount in Crore; Source: SCPL

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term fund-based limits	Simple
Long-term fund-based sub limits	Simple

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	Fund-based sub-limits	-	-	-	(10.00)	[ICRA]A (Stable)
NA	Fund-based limits	-	-	-	138.00	[ICRA]A1

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	SCPL Ownership	Consolidation Approach
Carreman Silvercrest Clothing (India) Private Limited	100.00%	Full Consolidation
Camden Apparel Solutions Pvt Ltd	50.00%	Equity Method
Munro Silvercrest Private Limited	50.00%	Equity Method

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