December 19, 2023

SSIPL Lifestyle Private Limited: Long term rating reaffirmed and short term rating assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	33.00	33.00	[ICRA]BB (Stable); reaffirmed
Long-term– Fund based – Term loans	20.07	16.88*	[ICRA]BB (Stable); reaffirmed
Unallocated	0.93	3.12	[ICRA]BB (Stable); reaffirmed
Short term Non fund based	-	1.00	[ICRA]A4; assigned
Total	**54.00**	**54.00**	

**Instrument details are provided in Annexure-I, *outstanding as on November 30,2023*

Rationale

For assigning the rating, ICRA has combined the business and financial risk profiles of SSIPL Retail Limited (SRL) and its wholly owned subsidiary, SSIPL Lifestyle Private Limited (SLL), collectively referred to as the SSIPL Group.

The assigned rating draws comfort from the Group's long track record in the sportswear and apparel retailing, footwear manufacturing and distribution business as well as its established relationship with reputed sportswear/apparel companies. After getting impacted by the pandemic in FY2021, the company's scale of operations increased in FY2022 and FY2023, primarily led by healthy inflow of orders in the contract manufacturing segment, the share of which has increased to 39% of revenues in FY2023 (as per provisional estimates, vis-à-vis 32% in FY2022). Moreover, the order book position of the Group remains healthy, with the company set to receive increased orders from its customers from January 2024. With healthy confirmed order flow, revenues from the contract manufacturing are further expected to increase in FY2024.

The ratings are, however, constrained by the modest financial risk profile of the Group, characterised by weak coverage metrics due to thin operating profit margins (OPM) and high debt levels, as well as a stretched liquidity profile. The OPMs have remained constrained in the past due to losses/inventory write-offs undertaken in the Lotto distribution business and part-provision undertaken for overdue receivables. The amount of inventory loss is expected to reduce from FY2024 as the company is in the process of liquidating the balance inventory. Closure of loss-making stores and healthy order book in the contract manufacturing segment are expected to improve the OPMs, going forward. The Group, however, still has large pending receivables with Rs. 22.2 crore as on June 30,2023 remaining overdue for more than 180 days. Any large write-offs in the same could impact the profitability and will be a key monitorable. The ability to scale up operations, improve operating profitability and efficiently manage working capital cycle remain imperative for a sustained improvement in its credit and liquidity profiles. This is more so, given the working capital intensive nature of operations and sizeable debt repayment obligations.

The operational risks are also heightened, considering the intense competition in the industry. Besides, the retail segment is susceptible to changes in consumer preferences and inventory obsolescence risks. Additionally, the Group faces the risk of non-renewal of contracts by its clients, as witnessed in FY2019 (the contract manufacturing business of Nike was lost).

The Stable outlook on the rating reflects ICRA's opinion that the credit profile of the Group will improve from the current level, supported by its healthy order book position and with closure of loss-making formats, which will result in improved profit margin.

Key rating drivers and their description

Credit strengths

Established track record of the Group in footwear and sportswear manufacturing and retailing industry – The Group's flagship company, SRL, was incorporated in 1994 and has a proven track record in manufacturing and retailing footwear and sports apparels and goods. Its wholly owned subsidiary, SLL, is a retailer of renowned and established footwear brand, Levis, and operates several multi-brand outlets (MBOs) under the brand name, Sports Station. Moreover, the Group has requisite BIS approvals in place.

Long association with reputed brands – The Group has established relationships with various brands like PUMA, Adidas and Asics in the contract manufacturing segment. It has also added new brands to its portfolio such as Skechers and Reebok in the current year. Moreover, as on June 30, 2023, the Group has a network of 160 retail stores, comprising 106 exclusive business outlets (EBOs) and 54 multi-brand outlets (MBOs). Sports Station accounts for 34% of the Group's outlets, followed by Levi's, which accounts for 28% of total retail stores.

Healthy order book position in contract manufacturing – The Group has confirmed order inflows from various brands from the next calendar year (January 2024 onwards). This is being driven by increased focus of the Government on domestic manufacturing. Thus, to cater to the growing demand, the Group is in the process of increasing its manufacturing capacity at its existing premises from 3 lakh pair per month to 4 lakh pair per month at an estimated cost of Rs. 9-10 crore. This is expected to be completed by December 2023.

Credit challenges

Weak financial profile and stretched liquidity position with large overdue receivables – The Group's financial risk profile is weak on account of its high debt levels and stretched liquidity position with large overdue receivables. Despite an increase in the operating income of the Group by 41% on a YoY basis to Rs.667.1 crore in FY2023 and healthy operating margin at the brand level, the overall EBDITA stood thin at 4.2% in FY2023. This was due to inventory write-off in the Lotto business and loss of Nike business due to closure of stores. In FY2023, the Group sold rights of around 20 Nike stores and registered a capital gain of Rs.73 crore. As on June 30, 2023, the Group had retail rights (non-exclusive rights) for only 12 Nike EBOs, which were also closed down recently in September 2023.

Coverage indicators stood weak, aided by high dependency on external debt and thin profitability. The interest coverage and total debt to OPBDITA stood of 1.4 times and 5.2 times, respectively in FY2023. Moreover, the liquidity position remained stretched, led by large overdue receivables pertaining to the Lotto business. Receivables more than six months stood at Rs.22.2 crore as March 31,2023 largely pertain to the Lotto business and are under litigation.

High working capital intensity of operations – The Group's working capital intensity has traditionally been high owing to high stock levels and liberal credit period offered in the distribution business. The debtors pertain mainly to the manufacturing segment in SRL and Lotto distribution business in SLL. The retail segment is a minimal credit period business, and the Group maintains an inventory of around 3-4 months and receives credit of one month from its vendor. Against this, under the manufacturing segment, it maintains an inventory of around 3-4 months of raw materials, which is procured from brand specified vendors only. It receives a credit period of around one month and provides credit of 1.5-2 months.

Intense competition in industry – The Group faces intense competition in its contract manufacturing segment from various organised and unorganised footwear manufacturers. Similarly, in the retail segment, it competes not only with other retailers appointed by its customer brands, but also with retailers of other competing brands present in the same segment, besides competition from the online retail segment. Further, the retail segment is susceptible to changes in tastes as well as consumer preferences, and inventory obsolescence risks.

Risk of discontinuation or unfavourable changes in key client agreements – The Group continues to face the risk of non-renewal of contracts/unfavourable changes in commercial agreements with its key clients. This could adversely impact the operations of the Group. In the manufacturing segment, the Group's clients are not obligated to procure a minimum quantity from the Group and have an option to procure products from alternative vendors. However, the risk is partially mitigated by the Group's long relationships with its clients. Also, the Group has built its reputation of timely supply of sportswear/footwear, which has further strengthened the Group's relationship with its clients. Further, with the view to decrease its overall dependence on few clients and mitigate demand risk, the Group has added new clients in its manufacturing segment in the recent past.

Liquidity position: Stretched

The liquidity position of the Group is stretched, marked by high working capital intensity of operations and largely full utilisation of fund-based limits along with sizeable debt repayment obligations of Rs.23.8 crore and Rs.16.2 crore in FY2024 and FY2025, respectively. Moreover, the Group has planned capex of around Rs. 15.0 crore in FY2024, which will be funded through infusion of funds/unsecured loans from promoters. Against this, the Group has free cash and bank balance of ~Rs.9.4 crore as on June 30,2023 and undrawn fund-based bank limits of Rs. 1.0 crore as on November 30, 2023. The management has indicated that the promoters would infuse funds in the Group, whenever required.

Rating sensitivities

Positive factors – The rating is likely to be upgraded if the Group reports a healthy and sustained growth in its revenues and profitability, along with an improvement in its working capital cycle, resulting in improved debt coverage metrics and liquidity profile.

Negative factors – Sustained pressure on revenues, profitability, and debt coverage metrics, or a further weakening of the liquidity position, may trigger a rating downgrade. Weakening of total debt to operating profit to more than 4 times on a sustained basis may trigger a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Retail Industry Rating Methodology -Footwear
Parent/Group support	NA
Consolidation/Standalone	ICRA has considered the consolidated financials of SSIPL Retail Limited and combined the business profiles of SRL and SLL to arrive at the ratings. List of entities considered for consolidated analysis has been given in Annexure II

About the company

SRL is involved in contract manufacturing of footwear for reputed brands like Puma, Asics and Adidas. It was also involved in retailing of Nike footwear till recently. The promoters of the company, Mr. Rishab Soni, Mr. Sunil Taneja and Mr. Amit Mathur are actively involved in the day-to-day business operations.

SSIPL Lifestyle Private Limited (SLL) is a wholly owned subsidiary of SRL, involved in retailing of brands like Levi's, Lotto and UCB through exclusive brand outlets (EBOs) and operates several MBOs under the brand name, Sports Station. In addition to retailing, SLL commenced distribution of Lotto in FY2016, however, the same was discontinued in FY2021.

Key financial indicators (Consolidated)

SRL Consolidated	FY2022	FY2023
Operating income	474.6	667.1
PAT	-10.9	48.8
OPBDIT/OI	4.2%	4.2%
PAT/OI	-2.3%	7.3%
Total outside liabilities/Tangible net worth (times)	7.4	3.4
Total debt/OPBDIT (times)	7.8	5.2
Interest coverage (times)	1.0	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: None

Any other information: None

Rating history for past three years

	Current rating (FY2024)				Chronology of rating history for the past 3 years						
	Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
					Dec 19,2023	Sep 22, 2023	May 26, 2022	Jan 24, 2022	Nov 29, 2021	Jan 12, 2021 Nov 6, 2020	Apr 14, 2020
1	**Cash Credit**	Long term	33.00	-	**[ICRA]BB(Stable)**	**[ICRA]BB (Stable)**	**[ICRA]BB (Negative); ISSUER NOT COOPERATING; Withdrawn**	**[ICRA]BB (Negative); ISSUER NOT COOPERATING**	**[ICRA]BB (Negative)**	**[ICRA]BB (Negative)**	**[ICRA]BB+ (Negative)**
2	**Term loans**	Long term	16.88	16.88*	**[ICRA]BB(Stable)**	**[ICRA]BB (Stable)**	**[ICRA]BB (Negative); ISSUER NOT COOPERATING; Withdrawn**	**[ICRA]BB (Negative); ISSUER NOT COOPERATING**	**[ICRA]BB (Negative)**	**[ICRA]BB (Negative)**	**[ICRA]BB+ (Negative)**
3	**Unallocated**	Long term	3.12	-	**[ICRA]BB(Stable)**	**[ICRA]BB (Stable)**	-	-	-	-	-
4	**Non-fund-based Limits**	Long term	-	-		-	**[ICRA]BB (Negative); ISSUER NOT COOPERATING; Withdrawn**	**[ICRA]BB (Negative); ISSUER NOT COOPERATING**	**[ICRA]BB (Negative)**	**[ICRA]BB (Negative)**	**[ICRA]BB+ (Negative)**
5	**Non fund based**	Short term	1.00		**[ICRA]A4**						

**outstanding as on November 30,2023*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based Limits- Cash Credit	Simple
Term loans	Simple
Unallocated	Not applicable
Non fund based	Very 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 Limits-Cash Credit	NA	NA	NA	33.00	[ICRA]BB (Stable)
NA	Term loans	FY2021	9.25%	FY2028	16.88	[ICRA]BB (Stable)
NA	Unallocated	NA	NA	NA	3.12	[ICRA]BB (Stable)
NA	Non fund based	NA	NA	NA	1.00	[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

Company Name	SRL Ownership	Consolidation Approach
SSIPL Retail Limited	Parent	Full Consolidation
SSIPL Lifestyle Private Limited	100% (Entity being rated)	Full Consolidation
Shree Shoes	99%	Full Consolidation

Source: company; Note: ICRA has taken a consolidated view of the parent, its subsidiaries and associates while assigning the ratings.

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Sakshi Suneja
+91 22 6169 3349
sakshi.suneja@icraindia.com

Taanisha Sharma
+91 22 6169 3344
Taanisha.sharma@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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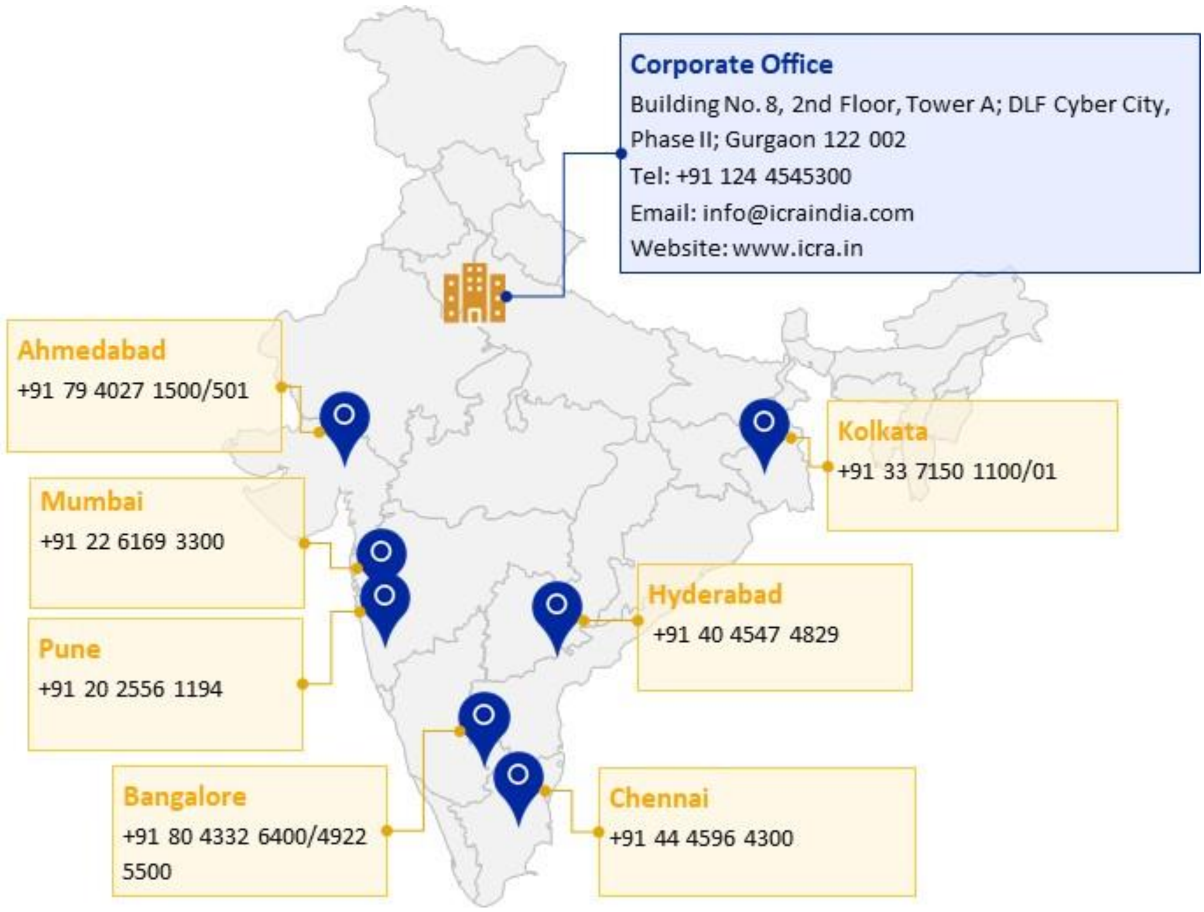

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