

March 25, 2024

Silver Crest Clothing Private Limited: Ratings reaffirmed and assigned for enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-Fund-based-Interchangeable	(10.00)	(10.00)	[ICRA]A (Stable); reaffirmed
Short-term Fund-based facilities	138.00	173.00	[ICRA]A1; reaffirmed / assigned for enhanced amount
Total	138.00	173.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation for Silver Crest Clothing Private Limited (SCPL) considers the consistent improvement in the company's performance in FY2023, along with ICRA's expectations of a stable performance, going forward. SCPL's operating income had grown by ~57% in FY2023 on a YoY basis to Rs. 543.6 crore on the back of its strong product portfolio and healthy order book position. The company has orders worth ~\$30 million as of end-February 2024. Besides an increase in volumes, the operating margin had improved to 9.7% in FY2023 from 6.1% in FY2022 due to higher realisations and benefits of scale. ICRA expects the operating margin to improve in FY2024 on account of lower raw material cost and improvement in realisation despite a likely drop in volumes. 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 in FY2023 (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 33.6% in FY2023 from 47.6% in FY2022. ICRA also notes that SCPL has concluded buyback of equity shares in February 2024, which resulted in a cash outflow of Rs. 38.0 crore (representing 15% of the pre-buyback equity share capital, inclusive of taxes). SCPL has funded this buyback from its internal reserves. 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 on the long-term rating reflects ICRA's expectation that SCPL is likely to sustain its operational metrics even as its revenue growth may moderate. Further, the outlook underlines ICRA's expectation that despite high working capital requirement, the business will be able to durably maintain its comfortable capitalisation levels commensurate with the existing rating.

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 one of the largest 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 and recently concluded equity share buyback (in February 2024), resulting in an outflow of Rs.38 crore. Over the years, a sizeable portion of the working capital requirements was funded by internal accruals, limiting dependence on external debt. Also, its dependence on external debt further reduced in FY2023. Its total debt reduced to Rs.87.3 crore as on March 31, 2023 (against Rs. 116.8 crore in FY2022). However, the same is expected to marginally increase in FY2024. 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 remain high. Thus, its revenues and earnings are exposed to the volatility in the performance of its top-five customers, which accounted for ~63% of its turnover in FY2023. 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 few years mitigates the customer concentration risk marginally.

Working capital intensive nature of operations and limited pricing flexibility – SCPL’s operations are characterised by high working capital requirement with NWC/OI¹ of 33.6% at the end FY2023. Despite a high working capital intensive business, the ratio has improved from 47.6% in FY2022 on account of reduction in inventory holding and effective management of receivables. Further, SCPL’s operating margins remain constrained because of 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 with expected healthy cash flow from operation of ~Rs. 47.0 crore in FY2024 and is supported by a cash buffer of ~Rs. 40 crore and undrawn working capital limits of ~Rs. 85 crore in February 2024. In relation to these sources of cash, SCPL has a capex commitment of Rs. 6 crore for FY2024 being funded by internal accruals. It has also recently completed buyback of equity shares worth Rs.38 crore. Although retained cash flows are expected to moderate in FY2024, consequent to the recently concluded share buyback, the same are expected to stay healthy, going forward, with no major debt-funded capex and no further buyback / dividend distribution planned by the entity.

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.

Negative factors – SCPL’s inability to improve the working capital cycle or sustained pressure on the operating performance, adversely impacting the company’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.

¹ NWC/OI – Net working capital to operating income

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

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 (Consolidated)

Silver Crest Clothing Private Limited	FY2022 (Audited)	FY2023 (Audited)
Operating income (Rs. crore)	345.9	543.6
PAT (Rs. crore)	11.3	31.7
OPBDIT/OI	6.1%	9.7%
PAT/OI	3.3%	5.8%
Total outside liabilities/Tangible net worth (times)	1.2	0.9
Total debt/OPBDIT (times)	5.6	1.7
Interest coverage (times)	19.7	10.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)				Chronology of Rating History for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				March 25, 2024	September 18, 2023				
1	Fund-based Interchangeable	Long-term	(10.00)	--	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	Fund-based limits	Short-term	173.00	--	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based Interchangeable	Simple
Short-term fund-based 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 Interchangeable	-	-	-	(10.00)	[ICRA]A (Stable)
NA	Fund-based limits	-	-	-	173.00	[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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