May 13, 2022

Stag International: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	38.80	35.40	[ICRA]BB+ reaffirmed; Outlook revised to Stable from Negative
Long-term Fund-based – Term Loan	0.00	4.00	[ICRA]BB+ reaffirmed; Outlook revised to Stable from Negative
Short-term Non-fund Based – Letter of Credit	2.60	2.60	[ICRA]A4+; reaffirmed
Long-term/ Short-term - Unallocated	0.60	-	-
Total	**42.00**	**42.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings for Stag International (Stag) considers the improvement in the firm's revenues with healthy growth of 44% in its operating income (OI) in 11M FY2022 (provisional), supported by its increased presence in the US market. The ratings continue to derive comfort from Stag's long operational history and established brand name, extensive experience of the promoters in the sports equipment industry and its extensive distribution network.

The ratings are, however, constrained by the stretched liquidity profile, following high inventory levels and withdrawal of substantial profit/capital by the partners. This has resulted in increased reliance on external debt (almost full utilisation of working capital limits) and moderate debt protection metrics, despite an improvement in its scale and operating profits. The ratings continue to be constrained by Stag's moderate scale of operations, limited pricing flexibility owing to the competitive and fragmented nature of the industry, and vulnerability of its profit margins to adverse movement in exchange rates as a sizeable portion of the revenues comes from exports. The ratings also note the firm's partnership constitution, which exposes it to risks of capital withdrawal by the partners as witnessed in the past.

The revision in the outlook to Stable from Negative reflects ICRA's expectations that with increase in demand from key export markets of the US and the Europe (as witnessed in the order book of Rs. 31.57 crore as of March, 2022), Stag's operational performance could witness improvement over the medium term. Moreover, given the management's guidance of lower capital withdrawal, the liquidity and net worth position should also improve going forward.

Key rating drivers and their description

Credit strengths

Established business track record and extensive experience of promoters – The firm was promoted by the Kohli family, which has a long track record in the sports equipment industry. One of the partners, Mr. Rakesh Kohli, is a certified tennis player. He looks after the firm's entire business/operations.

Strong brand presence in niche segment – The firm's brand, STAG, is well established and accepted in the sport of table tennis, both in the domestic and the international markets. It is accredited by the International Table Tennis Federation (ITTF), which enhances its product acceptability. Further, it has been appointed as the sole distributor for the entire tennis range of Babolat, a French tennis brand in India, which is facilitating its gradual traction in the Indian market.

Increasing share of exports – Stag derives 60-70% of its revenue from exports, and the share of exports has increased to 73% in FY2022 from 39% in FY2016. The firm's exports to the US market grew to 50% of the total exports in FY2021 and 59% in FY2022. Stag has tied up with Kettler USA for manufacturing their Kettler TT Tables in India and has appointed them for distributing STAG table tennis equipment in USA. In addition, it has tied up with USA Table Tennis (USATT) as their official sponsor of National Championships.

Credit challenges

Average financial profile with high working capital intensity and modest net worth – The firm's financial risk profile remains average, given the modest scale of operations and limited net worth, which had remained constrained due to regular withdrawal of profits/capital. Further, considering the working capital-intensive nature of operations, Stag has remained highly dependent on short-term working capital borrowings over the years. The firm reported a high working capital intensity in the recent years owing to a stretched receivable cycle and large inventory holdings. Moreover, its liquidity position is stretched, as reflected by almost full utilisation of working capital limits. It is working on liquidating its high inventory, which stood at ~Rs. 45.6 crore and ~Rs. 47.25 crore as on March 31, 2021 and February 28, 2022, respectively. Given Stag's modest net worth, any large inventory write-off would adversely impact its overall credit profile. Furthermore, Stag being a partnership firm is exposed to the risk of reduction in its net worth owing to withdrawal by partners (as witnessed in the recent years), which may affect its capital structure.

Highly competitive and fragmented industry with low entry barriers – Stag operates in an intensely competitive industry with a large number of organised and unorganised players and low entry barriers for new entities. However, it continues to benefit to an extent because of its established brand name in India and abroad.

Margins exposed to forex rate fluctuation risks – Stag derives most of its revenues from exports, which makes it vulnerable to demand in key export markets. Further, its profitability depends on its ability to effectively hedge the export receivables on a consistent basis.

Liquidity position: Stretched

Stag's liquidity position is stretched owing to the working capital-intensive nature of operations. The firm's stretched liquidity position is highlighted by its near-full utilisation of sanctioned fund-based working capital limits, modest cash and liquid balances. The firm has licenses worth ~Rs. 2 crore, which can be monetised on a short notice and can provide some liquidity support. An improvement in cash flows with efficient inventory management and retention of profits within the firm remains important for strengthening its liquidity profile.

Rating sensitivities

Positive factors – The ratings may be upgraded if the firm witnesses a significant recovery in revenue and earnings, along with improvement in working capital intensity, which strengthens its credit metrics and liquidity position.

Negative factors – A deterioration in Stag's earnings on account of slower-than-expected ramp-up in sales adversely affecting its financial performance or sizeable capital withdrawal resulting in continued stretch on its liquidity position may result in downward pressure on the ratings. Specific credit metrics that could lead to a rating downgrade include OPBITDA/Interest less than 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

Stag International (Stag) was established in 1950 by Mr. Tilak Raj Kohli and his sons. At present, it is a partnership firm run by Mr. Rakesh Kohli and Mr. Vivek Kohli. The promoters have extensive experience in this sector. The firm manufactures sports equipment (table tennis racquets, badminton racquets, tennis tables, yoga mats, etc) and apparels under its own brand, Stag. This apart, it is a distributor of premium fitness equipment and team sports equipment in India. It has the exclusive distribution rights of Babolat in India. It is present in both the domestic and exports market.

Key financial indicators (audited)

Stag	FY2020	FY2021
Operating Income (Rs. crore)	56.6	80.2
PAT (Rs. crore)	2.5	4.5
OPBDIT/OI (%)	9.9%	9.6%
PAT/OI (%)	4.4%	5.6%
Total Outside Liabilities/Tangible Net Worth (times)	6.0	6.1
Total Debt/OPBDIT (times)	7.0	5.0
Interest Coverage (times)	1.9	2.0

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	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					May 13, 2022	--	Mar 15, 2021	June 01, 2020	--	Feb 22, 2019	Feb 06, 2019
1	Term Loans	Long-term	4.00	4.00	[ICRA]BB+ (Stable)	--	--	--	--	--	--
2	Fund-based Cash Credit	Long-term	35.40	--	[ICRA]BB+ (Stable)	--	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	--	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3	Non-fund based – Letter of Credit	Short-term	2.60	--	[ICRA]A4+	--	[ICRA]A4+	[ICRA]A4+	--	[ICRA]A4+	[ICRA]A4+
4	Unallocated	Long-term/Short-term	--	--	--	--	[ICRA]BB+ (Negative)/ [ICRA]A4+	[ICRA]BB+ (Negative)/ [ICRA]A4+	--	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term Fund-based – Term Loan	Simple

Short-term Non-fund Based – Letter of credit	Very Simple
Long-term/ Short-term - 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-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Cash Credit	NA	-	--	35.40	[ICRA]BB+(Stable)
NA	Term Loan	September 2021	-	FY2026	4.00	[ICRA]BB+(Stable)
NA	Non-fund Based – Letter of Credit	NA	NA	--	2.60	[ICRA]A4+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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