April 14, 2020

SSIPL Retail Limited: Rating downgraded to [ICRA]BB+ (Negative)

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Working Capital Facilities	122.00	122.00	[ICRA]BB+ (Negative); downgraded from [ICRA]BBB (Stable)
Fund based- Term Loans	27.51	27.51	[ICRA]BB+ (Negative); downgraded from [ICRA]BBB (Stable)
Non-fund based Limits	12.00	12.00	[ICRA]BB+ (Negative); downgraded from [ICRA]BBB (Stable)
Total	**161.51**	**161.51**	

** Instrument details provided in Annexure-1*

Rationale

The rating takes a consolidated view of the credit risk profiles of SSIPL Retail Limited (SSIPL) and its wholly-owned subsidiary, SSIPL Lifestyle Private Limited (Lifestyle)[1]. The two entities are together referred to as the Group.

The rating downgrade reflects deterioration in the Group's operating performance and financial risk profile in FY2020 owing to loss of contract manufacturing business from Nike and overall weak demand in the industry. The negative outlook reflects ICRA's expectation of a weak operating performance over the next few quarters, following the nationwide lockdown. Even as uncertainty on duration of the lockdown remains, ICRA expects a prolonged impact on demand in the Group's retail segment (retail and distribution contributed ~80% of the Group's revenues in FY2019), with recovery likely to be gradual owing to the discretionary nature of the product. Further, the Group's liquidity position has remained under pressure as reflected by high bank limit utilization in the backdrop of sizeable working capital requirements. Thus the group resorted to additional term debt to address its funding requirements in absence of adequate cash accruals. Consequently, the Group's debt coverage indicators are estimated to have further deteriorated in FY2020 and are expected to moderate in the near term.

While the Group has honored its debt obligations pertaining to March 2020, it has requested for a reversal of the same in order to avail benefit under the COVID-19 - Regulatory Package announced by the Reserve Bank of India (RBI) on March 27, 2020. The formal approval is pending from the lenders.

Moreover, the rating continues to take into consideration the intense competition in the industry and the client-concentration risk as the Group derived a significant proportion of its revenues in the retail segment from Nike. The Group also faces the risk of non-renewal of contracts by its clients, as evidenced in FY2019 by the loss of contract manufacturing business of Nike. Further, operations in sportswear and apparel retail segment expose the business

[1] *Rated ICRA BB+(Negative)*

operations of the Group to any adverse macroeconomic events which may impact the discretionary spending levels of consumers, as is being currently witnessed.

However, the rating continues to draw comfort from the Group's long track record in the sportswear and apparel retailing, manufacturing and distribution industry and its established relationship with reputed sportswear/apparel companies. SSIPL continues to be one of the leading retailers for Nike sportswear in India and accounts for a sizeable proportion of Nike's total retail business in the country. Further, the Group's presence across the entire value chain of manufacturing, retail and distribution supports revenue diversification.

Key rating drivers and their description

Credit strengths

Established track record of the Group in footwear and sportswear manufacturing and retailing industry – Incorporated in 1994, the Group's flagship company, SSIPL, has a proven track record in the business of manufacturing and retailing footwear and sports apparels and goods. Currently, SSIPL and its wholly-owned subsidiary Lifestyle are retailers for renowned and established footwear, sports and apparel brands including Nike, Lotto, Levi's, Clarks and United Colors of Benetton (UCB). In addition, Lifestyle commenced distribution of Lotto shoes and other footwear in FY2016.

Presence across value chain supports revenue diversification – The Group's presence across the entire value chain of manufacturing, retailing and distributing sportswear and footwear for various reputed brands diversifies its revenue streams.

Continued leadership in Nike retail business – Despite the loss of manufacturing business from Nike, SSIPL continues to be one of the largest retailers for Nike in India, accounting for a sizeable proportion of Nike's total retail sales in the country.

Credit challenges

Weak financial performance in FY2020, Covid crisis expected to result in further deterioration of performance in FY2021-

The company's performance remained under pressure in FY2020 in the backdrop of weak demand in the industry and gradual recoup of lost revenue from Nike through other brands. In addition, the Group's profitability was weak on account of lower pricing to retain customers in the manufacturing segment as well as offering discounts in the retail and distribution business. While the Group is estimated to post higher than expected losses in FY2020 (Loss before tax of Rs. 13 crore on a provisional basis in 9MFY2020), higher debt level to fund the losses and working capital requirements would result in further moderation of the Group's debt coverage indicators. Further, the Covid-19 outbreak is expected to adversely impact the Group's performance in FY2021. Even as uncertainty on duration of the lockdown remains, ICRA expects a prolonged impact on demand in the Group's retail segment (retail and distribution contributed 80% of the Group's revenues in FY2019) , with recovery likely to be gradual, owing to the discretionary nature of the product and likely consumer skepticism to step out which may keep footfalls low for some time, even after the lockdown is lifted.

Increase in working capital intensity of operations leads to stretched liquidity position – The Group's working capital intensity has traditionally been high owing to high stock levels and liberal credit period to be offered, in distribution business. With weak cash accruals in FY2020, the company working capital limits have remained highly utilised in the recent months. The current lockdown situation further exacerbates the liquidity position given the high fixed costs (salaries and store rentals). The deferment of debt obligations is thus crucial for the company. ICRA notes that the Group has deferred its rental payments given the unprecedented lockdown.

Competitive industry – The Group faces intense pressures in its contract-manufacturing segment from various organised and unorganised footwear manufacturers. Similarly, in the retail segment, the Group competes with other retailers and brands.

Risk of discontinuation or unfavourable changes in key client agreements – The Group remains exposed to the risk of discontinuation or unfavourable changes in its commercial agreements with its key clients. This is evidenced by loss of contract manufacturing business of Nike in FY2019 and consequent revenue loss for SSIPL.

Liquidity position: Stretched

The Group's liquidity position is **Stretched** as its cash flows have continued to weaken in FY2020 on account of decline in profitability along with sizeable working capital requirements. The average fund-based limit utilisation over the last few months has remained high, leading to limited cushion in the form of undrawn working capital limits. The deferral of loan obligations and rentals is expected to lend some cushion to the Group over the next two months. Notwithstanding the immediate liquidity support through moratorium, additional funding support will be required for debt servicing subsequently.

Rating sensitivities

Positive triggers – Given the negative outlook, an upgrade is unlikely in the near term. The outlook may be revised to Stable if the Group demonstrates improvement in its profitability and liquidity position on a sustained basis.

Negative triggers – Negative pressures on the rating could arise if the Group's growing working capital needs continue to weigh on its liquidity substantively and/or if the Group is not able to improve its revenues, profitability metrics and debt coverage indicators. Further, the rating could be revised downwards in case the lockdown prolongs thereby materially impacting the Group's earnings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Retail Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SSIPL Retail Limited; as on March 31, 2019, the company had three subsidiaries that are enlisted in Annexure-2

About the company

SSIPL manufactures footwear for international brands like Puma, Lotto and also retails Nike products. The company was incorporated in October 1994 as Moja Shoes Private Limited and its name was subsequently changed to SSIPL Retail Private Limited in August 2006 and then to SSIPL Retail Limited in May 2008. The promoters of the company are Mr. Rishab Soni, Mr. Sunil Taneja and Mr. Amit Mathur.

SSIPL has a wholly-owned subsidiary, Lifestyle, which is a retailer for renowned brands like Levi's, Lotto, UCB and Clarks. It also operates several multi-brand outlets under the brand names Value Station, Shoe Tree and Sports Station. In addition to retailing, Lifestyle undertakes distribution of Lotto footwear.

Key financial indicators (Audited) - Group

	FY2018	FY2019
Operating Income (Rs. crore)	832.9	838.5
PAT (Rs. crore)	12.0	0.6
OPBDIT/OI (%)	7.5%	5.7%
RoCE (%)	12.5%	7.1%
Total Outside Liabilities /Tangible Networth (times)	2.30	2.60
Total Debt/OPBDIT (times)	2.88	4.76
Interest Coverage (times)	2.88	1.95
DSCR	2.02	1.51

Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

			Current Rating (FY2021)					
	Instrument	**Type**	**Amount Rated (Rs. crore)**	**Amount Outstanding *(Rs. crore)**	**Date & Rating 14-Apr 2020**	**Date & Rating in FY2020 07-Oct 2019**	**Date & Rating in FY2019 27-Aug 2018**	**Date & Rating in FY2018 10-April 2017**
1	Fund based-Working Capital Facilities	Long Term	122.00	-	[ICRA]BB+ (Negative)	[ICRA]BBB (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Fund based-Term Loans	Long Term	27.51	13.05	[ICRA]BB+ (Negative)	[ICRA]BBB (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Non-fund based Limits	Long Term	12.00	-	[ICRA]BB+ (Negative)	[ICRA]BBB (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)

**As on March 31, 2020*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based- Working Capital Facilities	-	-	-	122.00	[ICRA]BB+ (Negative)
NA	Fund based- Term Loans	FY2017	-	FY2024	27.51	[ICRA]BB+ (Negative)
NA	Non-fund based Limits	-	-	-	12.00	[ICRA]BB+ (Negative)

Source: SSIPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
SSIPL Lifestyle Private Limited	100.00%	Full Consolidation
Shubh Footwear Products Private Limited	50.25%	Full Consolidation
Shree Shoes	99.00%	Full Consolidation

Source: SSIPL

ANALYST CONTACTS

Sabyasachi Majumdar
+91-124-4545304
sabyasachi@icraindia.com

Anupama Arora
+91-124-4545303
anupama@icraindia.com

Sheetal Sharad
+91-124-4545374
sheetal.sharad@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.

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999