

August 20, 2020

Stanfab Apparels Private Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund-based	47.80	47.80	[ICRA]A3; reaffirmed
Short-term non-fund based	2.10	2.10	[ICRA]A3; reaffirmed
Fund-based – Term Loan	4.98	4.98	[ICRA]BBB- reaffirmed; Outlook revised to Negative from Stable
Unallocated – Long-term/short-term	3.12	3.12	[ICRA]BBB-/ [ICRA]A3 reaffirmed; Outlook revised to Negative from Stable
Total	58.0	58.0	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation factors in the extensive experience of the promoters of Stanfab Apparels Private Limited (SAPL) in the readymade garments industry and the company's track record in the garment export business for close to three decades. The ratings consider SAPL's established relationships with its renowned and diverse clientele that ensure repeat orders and stability in its revenues. The ratings also factor in the company's healthy capitalisation metrics as illustrated by a gearing of 1.0 times and TOL/TNW of 1.2 times as of March 2020.

The ratings, however, remain constrained by SAPL's moderate scale of operations in an intensely competitive industry, which resulted in limited bargaining power and restricted benefits from economies of scale. Besides, the revenue is likely to decline in FY2021 due to subdued demand outlook in the textile industry and imposition of lockdown following the Covid-19 pandemic. The company's profitability is vulnerable to the Government's policy on export incentives, fluctuation in foreign exchange rates and raw material prices. However, forex hedging mitigates the currency fluctuation risk to an extent. Further, the ratings are constrained by the company's financial profile, characterised by moderate coverage indicators and high working capital intensity.

The revision in SAPL's outlook to Negative factors in the subdued demand outlook of the textile industry on account of the Covid-19 pandemic and its stretched liquidity profile because of high working capital utilisation and elongated working capital cycle. The company has requested for enhancement in its working capital limits, which is pending for approval from the bank and the same will remain a key rating monitorable.

Key rating drivers and their description

Credit strengths

Experience of promoter for nearly three decades in the textile industry – SAPL's promoter, Mr. E.R. Eswaran, has nearly three decades of experience in the readymade garment industry. The experience of the management has aided in scaling up the business and catering to reputed players.

Diversified customer base lends stability to revenues – SAPL's customer base includes reputed brands/companies such as Primark, Bass Pro Inc., S. Oliver, Joules, French Connection and Cecil, among others. The company's established relationships with its customers ensure repeat orders that help it maintain its scale along with a moderate customer

concentration risk. The company caters to a major apparel segment of menswear, womenswear, childrenswear as well as other fashion accessories.

Comfortable capitalisation metrics – SAPL’s capitalisation metrics are healthy as illustrated by a gearing of 1.0 times and TOL/TNW of 1.2 times as of March 2020 due to healthy accretion to reserves over the years, characterised by a moderate long-term debt of Rs. 10.9 crore and a short-term debt of Rs. 43.3 crore as of March 2020. However, SAPL’s financial profile is characterised by moderate coverage indicators. The company’s interest coverage and DSCR stood at 2.3 times and 1.59 times in FY2020, supported by a decline in interest expense amid a fall in OPBITDA to Rs. 7.9 crore in FY2020 from Rs. 8.7 crore in FY2019.

Credit challenges

Stretched liquidity position – The company’s liquidity position is stretched with high working capital utilisation and elongated working capital cycle. It has availed Rs. 3-crore ad-hoc limit, that is scheduled to be repaid by August 2020 in addition to its Rs. 41.8-crore fund-based working capital limits. The utilisation of the same remained high (97.3% of its sanctioned limits as of July 2020). The company’s working capital intensity (NWC/OI) increased marginally to 45.32% in FY2020 from 44.30% in FY2019 due to a stretched working capital cycle owing to higher inventory and debtor levels in FY2020. Elevated working capital intensity in the recent past resulted in high working capital utilisation. Further its liquidity position will be contingent to likely enhancement of its working capital limits and the same will remain a key rating monitorable.

Moderate scale of operation – SAPL has a moderate scale of operation with revenue of Rs. 162.07 crore in FY2020. This limits its economies of scale and competitive positioning due to a highly fragmented industry structure and intense competition in the textile export industry from other domestic players as well as from other low-cost textile exporting countries such as Vietnam, Pakistan and Bangladesh. The company’s moderate scale of operations and customer profile of global players resulted in limited bargaining power. Further, its revenue is expected to decline in FY2021 because of subdued demand outlook in the textile industry and imposition of lockdown following the Covid-19 pandemic.

Vulnerability of profitability to adverse fluctuation in forex rates and raw material prices – SAPL’s margins are susceptible to foreign exchange rate fluctuation risks because ~95% of its operating income is generated from its export sales. However, the company uses forward cover contracts to mitigate the forex risk to a large extent. The profit margins are also susceptible to volatility in raw material prices. In addition, the margins remain vulnerable to any adverse changes in export incentive policies, which support SAPL’s profitability to a large extent.

Liquidity position: Stretched

SAPL’s liquidity position is **stretched** on account of high working capital utilisation (97.3% of the sanctioned limits as of July 2020) and high working capital intensity. Its liquidity position is likely to remain under pressure with a repayment of Rs. 3 crore ad-hoc limits by August 2020 and the same will be contingent to likely enhancement of its working capital limits. The company has availed moratorium for two months for its Axis Bank term loan as a part of the Covid-19 regulatory package in FY2021 and the same has provided some comfort.

Rating sensitivities

Positive triggers – Given the Negative outlook, a rating upgrade in the near term is unlikely. However, ICRA may revise the long-term outlook to Stable if the company’s liquidity position improves with an improvement in working capital cycle and if there is an adequate buffer in its working capital limits on a sustained basis.

Negative triggers – Pressure on SAPL’s ratings could arise if the liquidity position weakens further due to a stretch in its working capital intensity and/or if the interest coverage falls below 2.0 times and DSCR falls less than 1.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry - Apparels
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

Stanfab Apparels Private Limited (SAPL) was formed in 1993 by its Promoter and Managing Director, Mr. E.R. Eswaran. It manufactures and exports shirts, t-shirts, trousers and other garments for men, women and children across both woven and knitted segments. It has 12 manufacturing units across Tamil Nadu and has 3,625 employees. SAPL's sales are entirely export-based, with its customer base spread across Europe, North America and Australia. Its notable clients include Primark Stores, UK, Bass Pro, US, Jules, France, and S Oliver, Germany.

Key financial indicators - Audited

	FY2019	FY2020 (provisional)
Operating Income (Rs. crore)	134.79	162.07
PAT (Rs. crore)	4.1	3.3
OPBDITA/OI (%)	6.47%	4.9%
RoCE (%)	9.80%	7.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.2
Total Debt/OPBDITA (times)	5.3	6.8
Interest Coverage (times)	2.3	2.3
DSCR	1.64	1.59

Source: Company

Status of non-cooperation with previous CRA:

CRISIL has revised SAPL's rating to CRISIL B+(Stable)/CRISIL A4 (ISSUER NOT COOPERATING) in July 2020.

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding (as on March 31, 2020)	Current Rating 20-August-2020	FY2019 17-October- 2019	FY2018	FY2017
1	Foreign Bill Discounting/Packing Credit (both LC and Non-LC backed)	Short Term	47.80	*	[ICRA]A3	[ICRA]A3	-	-
2	Letter of credit and Bank Guarantee	Short Term	2.10	*	[ICRA]A3	[ICRA]A3	-	-
3	Term Loan	Long Term	4.98	2.27	[ICRA]BBB-(Negative)	[ICRA]BBB-(stable)	-	-
4	Unallocated	Long Term/Short Term	3.12	-	[ICRA]BBB-(Negative)/[ICRA]A3	[ICRA]BBB-(stable)/[ICRA]A3		

Amount in Rs. Crore; * denotes unknown

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Foreign Bill Discounting/Packing Credit (LC and Non LC backed)	NA	NA	NA	47.8	[ICRA]A3
NA	Letter of Credit and Bank Guarantee	NA	NA	NA	2.10	[ICRA]A3
NA	Term Loan	NA	NA	NA	4.98	[ICRA]BBB-(Negative)
NA	Unallocated	NA	NA	NA	3.12	[ICRA]BBB-(Negative)/[ICRA]A3

Source: SAPL

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

Analyst Contacts

Ravichandran K
+91 44 4596 4301
ravichandran@icraindia.com

Srinivasan R
+91 44 4596 4315
r.srinivasan@icraindia.com

Rathina Pradeep R
+91 44 4297 4307
rathina.r@icraindia.com

Irfan Khan B
+91 44 4596 4345
irfan.b@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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents