

December 02, 2020

SAPL Industries Pvt Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund Based /CC	05.00	05.00	[ICRA]BB+ (Stable); reaffirmed
Short term – EPC/PCFC/FBD	53.00	53.00	[ICRA]A4+; reaffirmed
Short term – Letter of Credit/ Bank Guarantee	29.00	29.00	[ICRA]A4+; reaffirmed
Long term/Short term/Unallocated	3.00	3.00	[ICRA]BB+ (Stable)/A4+; reaffirmed
Total	90.00	90.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation derives comfort from the extensive experience of the promoters and the management team of SAPL Industries Pvt Ltd (SAPL) in the readymade garments industry and the company's established track record in the garment export business. The ratings derive comfort from its established relationships with customers, ensuring repeat orders. However, the ratings remain constrained by the company's high reliance on its top five customers, particularly in the backdrop of the Covid-19 pandemic, which has adversely impacted global demand. The company witnessed slow demand in Q4 FY2020 and in the current financial year as it continues to face intense competition from players in the low-cost apparel manufacturers in other Asian countries. ICRA factors in the exposure of the company's margins to foreign exchange rate fluctuations, regulations and duty structures across the markets.

ICRA also expects the apparel segment to remain moderately vulnerable given its sensitivity to consumer demand and sentiment, as well as the labour-intensive nature of the apparel manufacturing operations. Sales volumes from March 2020 were impacted owing to the postponement of orders by key export customers and the nationwide lockdown imposed in India. The strength of the recovery will be contingent on the duration and the extent of the pandemic where a prolonged downturn in apparel demand will constrain revenues and earnings as the discretionary consumer spending is likely to be curtailed.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's expectation that SAPL will continue to benefit from the established relationships with its reputed customers and management strategies adopted to improve the company's revenue growth, going forward.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and senior management in garment industry – SAPL has been in the apparel manufacturing segment for two decades. The company also has presence in lower, medium and premium segments. In addition to the promoters, SAPL has an experienced senior management team with more than 30 years of experience in the garments industry.

Established relationships with reputed international clientele – SAPL’s main customers include major international retailers like ITX Trading (includes brands such as Lefties, Pull & Bear, Stradivarius, Zara and Bershka), Primark Stores Limited, C&A, Tendam (including brands such as Cortefiel, Springfield, Women'Secret, Pedro del Hierro, and Fifty Factory), Bestseller and The Children’s Place, etc. Established relationships with these clientele, quality products and timely order execution helped the company to get repeat orders from existing customers and acquire new customers.

Credit challenges

Moderation of credit metrics in FY2020 – In FY2020, the credit metrics moderated due to higher debt and lower profitability. The gearing of the company increased to 1.5 times in FY2020 against 1.3 times in FY2019, TOL/TNW stood at 2.1 times in FY2020 against 1.8 times in FY2019, and its total debt/OPBDITA stretched to 8.3 times in FY2020 against 6.4 times in FY2019. The same is expected to continue in FY2021 owing to the impact on demand in the garment industry amid the backdrop of the pandemic.

High customer concentration – Notwithstanding the long-term client relationships, the company is exposed to high customer concentration risk with around 78% of its revenues derived from the top five customers in FY2020. Weak end-user demand and the Covid-19 pandemic impacted sales in FY2020 and in the current financial year. The company has registered sales of Rs. 40.5 crore in 5M FY2021. The apparel segment is expected to remain vulnerable, given its sensitivity to consumer demand and sentiments, as well as the labour intensive nature of the apparel manufacturing operations.

Vulnerability of profitability to any adverse foreign exchange fluctuations and regulatory risks – As SAPL is primarily an export-oriented company, its margins are exposed to fluctuations in foreign exchange rates. It exports primarily to the US, the UK, Europe etc and receives payments in dollar and euro. The forex risk, however, is mitigated to an extent by the hedging policy undertaken by the company. This apart, incentives form a significant portion of the company’s operating profits. Hence any variation in the incentive rates also impacts its profitability.

Liquidity position: Adequate

SAPL’s liquidity is **adequate** supported by free cash and bank balances of Rs. 2.2 crore as on March 31, 2020 and a buffer of around Rs. 25.0 crore as of August 2020 in the working capital facilities. This coupled with no long-term repayment obligations and no major capex plans in the medium term result in a healthy liquidity buffer for the company.

Rating sensitivities

Positive triggers – ICRA could upgrade SAPL’s ratings if the company demonstrates an improvement in the capital structure and debt protection metrics. Demonstration of a more efficient management of working capital, as it pursues its growth objectives, would also be a key factor for a higher rating. Specific credit metrics that could lead to an upgrade of ratings include OPBDITA/Interest of more than 3.0 times and Total Debt/ OPBDITA of less than 4.0 times on a sustained basis.

Negative triggers – Pressure on SAPL’s ratings may arise if any reduction in the company’s profitability and cash accruals or the high working capital intensity tightens its liquidity position.

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 rating is based on the standalone financial statements of the rated entity.

About the company

SAPL was incorporated in April 2001 as Creative Spinning & Weaving Private Limited. The name of the company was changed to Sonal Apparel Private Limited with effect from February 2, 2009. The name was again changed to SAPL Industries Private Limited with effect from June 16, 2015. The company manufactures and exports garments to customers located in the US, the UK and Europe. At present, it has an installed capacity of 66 lakh pieces per annum. The company primarily exports to customers like ITX Trading, Primark, C&A, The Children's Place, Tendam and Bestseller etc.

In FY2020, on a provisional basis, the company reported a net profit of Rs. 2.3 crore on an operating income (OI) of Rs. 226.3 crore compared to a net profit of Rs. 3.0 crore on an OI of Rs. 208.3 crore in FY2019.

Key financial indicators

	FY2019(A)	FY2020
Operating Income (Rs. crore)	208.3	226.3
PAT (Rs. crore)	3.0	2.3
OPBDIT/OI (%)	5.7%	5.0%
PAT/OI (%)	1.4%	1.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	2.1
Total Debt/OPBDIT (times)	6.4	8.3
Interest Coverage (times)	1.9	1.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					02-Dec-2020	15-Oct-2019	-	-
1	Cash Credit	Long term	5.00	NA	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
2	EPC/PCFC/FBD	Short term	53.00	NA	[ICRA]A4+	[ICRA]A4+	-	-
3	Letter of Credit/Bank Guarantee	Short term	29.00	NA	[ICRA]A4+	[ICRA]A4+	-	-
4	Unallocated	Long term/Short Term	3.00	NA	[ICRA]BB+ (Stable)/A4+	[ICRA]BB+ (Stable)/A4+	-	-

Amount in Rs. crore

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	Cash Credit	-	-	-	5.00	[ICRA]BB+(Stable)
NA	EPC/PCFC/FBD	-	-	-	53.00	[ICRA]A4+
NA	Letter of Credit/Bank Guarantee	-	-	-	29.00	[ICRA]A4+
NA	Unallocated	-	-	-	3.00	[ICRA]BB+(Stable)/[ICRA]A4+

Source: SAPL Industries Private Limited

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