

October 15, 2019

SAPL Industries Pvt Ltd: Ratings of [ICRA]BB+(Stable) and [ICRA]A4+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Cash Credit	5.00	[ICRA]BB+ (Stable); Assigned
Short Term-EPC/PCFC/FBD	53.00	[ICRA]A4+; Assigned
Short Term-Letter of Credit/Bank Guarantee	29.00	[ICRA]A4+; Assigned
Long term/Short Term/Unallocated	3.00	[ICRA]BB+ (Stable)/[ICRA]A4+; Assigned
Total	90.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings favourably factors in the extensive experience of the promoters and management team of SAPL Industries Private Limited (SAPL) in the readymade garments industry and the company's established track record in the garment export business. The ratings factor in its diversified presence in end-user categories like men's, women's and kids wear catering to all age group, across geographies like US, UK and Europe. The ratings derive comfort from its established relationships with its customers ensuring repeat orders.

The ratings, however, are constrained by SAPL's moderate financial risk profile marked by high debt levels resulting in a leveraged capital structure and modest debt coverage indicators. The ratings factor in its high working capital intensity of operations due to high inventory levels and debtors outstanding. Further, the ratings are constrained by the moderate scale of operations in an intensely competitive garment exports industry and the susceptibility of its margins to foreign exchange fluctuations and increase in input costs with limited ability to pass on any increase in input costs to its customers. ICRA notes that SAPL's competitiveness and profitability remain vulnerable to changes in the export incentives being offered by the Government.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's expectation that SAPL will continue to benefit from the extensive experience of its promoters and the established relationship with its reputed customers.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and senior management in garment industry – SAPL's promoters and senior management have extensive experience in the garments industry. Mr. Naveen Agarwal is the founder promoter of the company and he looks after overall business and focuses on customer relationship management. He is ably supported by his sons, Mr. Pratik Agarwal and Mr. Ankit Agarwal, in managing the company's business.

In addition to the promoters, SAPL has an experienced senior management team. Ms. Rachita Agarwal is the Director of SAPL, holds an MBA from S P Jain Centre of Management and has several years of experience in sales and marketing function. Mr. Rozario Dass is the Director of SAPL. He holds more than 28 years of experience in garments industry and

heads the operations function. Mr. K. Muralidharan, the Director, holds more than 30 years of experience and heads the finance function.

Diversification of revenues across products, end-user categories and geographies – The company, at present, manufactures casual and formal wear garments for men (shirts/t-shirts), women (shirt, t-shirts, tops), boys (shirts, t-shirts) and girls (tops, frocks) catering to all age groups. It manufactures jackets, shorts, skirts, jump suits, shorts, etc, in limited quantities. It exports garments across countries such as Spain, United Kingdom, the USA, Germany, Uruguay and Denmark, etc, limiting its dependency on any particular region.

Established relations 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 (include brands such as Cortefiel, Springfield, Women' Secret, Pedro del Hierro, and Fifty Factory), Bestseller and The Children's Place, etc. Established relationship with these clientele, quality products and timely order execution has helped the company to get repeat orders from existing customers and acquire new customers.

Credit challenges

Moderate financial risk profile – SAPL's scale of operations remain moderate, limiting the economies of scale and competitive position to some extent. The company's outstanding total debt stood at Rs. 77.7 crore as on March 31, 2019, increasing from Rs. 52.7 crore as on March 31, 2018. The capital structure remains leveraged with a gearing of 1.3 times as on March 31, 2019. The coverage indicators stood at modest levels with an interest coverage of 1.9 times, NCA/TD of 7.5% and TD/OPBITA of 6.5 times as on March 31, 2019.

Working capital intensive nature of operations due to high inventory holding period – SAPL's working capital intensity as indicated by its net working capital/ operating income (NWC/OI) remains high due to high inventory holding and debtors outstanding. The NWC/OI stood at 38.8% in FY2019 with the inventory days of 100 as on March 31, 2019. The increase in working capital intensity in FY2019 has led to negative cash flows and increase in debt levels. Any further increase in the working capital intensity can adversely impact the liquidity position going forward.

Susceptibility of margins to foreign exchange fluctuations, increase in input costs and regulatory risks – SAPL's margins remain susceptible to foreign exchange rate fluctuation risks because it generates a significant portion (93.8% in FY2019) of its sales from exports. The risk is mitigated to some extent by its imports and hedging its foreign currency exposure through forward cover. The margins are susceptible to any increase in input costs due to moderate bargaining power with its customers. In addition, the margins remain vulnerable to any adverse changes in export incentives, which support SAPL's profitability, to a large extent.

Pricing power limited by intense competition in industry – SAPL faces competition, not only from other established garments exporters from India, but also from other low-cost garment exporting countries like Vietnam and Bangladesh. This limits its ability to increase its prices and margins.

Liquidity position: Adequate

The company's liquidity position remained adequate, supported by free cash and bank balances of Rs. 7.4 crore as on March 31, 2019. The cash flow from operations remained negative over the last two years due to an increase in working capital intensity. The same has been funded through loans from NBFCs. Although the loans are short-term in nature, ICRA does not anticipate any refinancing risk on the same, as the lenders have confirmed to roll-over the facilities for the next three fiscals. Since the funding requirements were met through these NBFC loans, the average working capital limit utilisation remained moderate at 83% between April 2018 and June 2019. Going forward, the company's annual debt repayment obligations remain modest, and with no major capex plans over near to medium term, the liquidity position is expected to remain adequate.

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 be the key for a higher rating. Specific credit metrics that could lead to an upgrade in ratings include OPBDITA/Interest of more than 3.0 times and Total Debt/ OPBITDA less than 4.0 times on a sustained basis.

Negative triggers – Negative pressure on SAPL’s ratings may arise, if any reduction in the company’s profitability and cash accruals or further increase in the 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 Indian Textiles Industry – Apparels
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the 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 is involved in manufacturing and export of garments to customers located in the USA, UK and Europe. At present, it has an installed capacity of 64 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 FY2019, the company reported a net profit of Rs. 3.0 crore on an OI of Rs. 203.8 crore, compared to a net profit of Rs. 5.6 crore on an OI of Rs. 234.3 crore in the previous year.

Key financial indicators

	FY2018 (Audited)	FY2019 (Provisional)
Operating Income (Rs. crore)	234.3	208.3
PAT (Rs. crore)	5.6	3.0
OPBDIT/ OI (%)	4.4%	5.7%
RoCE (%)	11.6%	8.5%
Total Debt/ TNW (times)	0.9	1.3
Total Debt/ OPBDIT (times)	5.1	6.5
Interest Coverage (times)	2.1	1.9

Source: SAPL and ICRA research;

Status of non-cooperation with previous CRA: India Ratings has migrated the credit ratings assigned to bank facilities of SAPL Industries Private Limited to Issuer Not cooperating category on March 19, 2019 owing to inability to carry out a rating surveillance in the absence of the requisite information from the company.

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2020)				Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 2019 (Rs. crore)	Date & Rating in FY2020 15-Oct 2019	FY2019	FY2018	FY2017
1 Cash Credit	Long term	5.00	NA	[ICRA]BB+ (Stable)	-	-	-
2 EPC/PCFC/FBD	Short term	53.00	NA	[ICRA]A4+			
3 Letter of Credit/Bank Guarantee	Short term	29.00	NA	[ICRA]A4+			
4 Unallocated	Long term/ Short Term	3.00	NA	[ICRA]BB+ (Stable)/ [ICRA]A4+			

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	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 Pvt Ltd

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