October 17, 2019 Revised

Stanfab Apparels Private Limited: [ICRA]BBB-(stable)/A3 assigned

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating considers 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. Further, SAPL's established relationships with its renowned and diverse clientele ensures repeat orders and stability in revenues. The rating also factors in the company's healthy capitalisation metrics as illustrated by gearing of 0.96 times and TOL/TNW of 1.11 times in FY2019.
The rating, however, is constrained by SAPL's moderate scale of operations in an intensely competitive industry, which has resulted in limited bargaining power and restricted benefits from economies of scale. The company's profitability also 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 rating is also constrained by the company's financial profile characterised by moderate coverage indicators and high working capital intensity.

The Stable outlook reflects ICRA's expectation that SAPL will continue to benefit from the extensive experience of its promoters and the established relationships with its reputed customers.

Key rating drivers and their description

Credit strengths

Experienced promoter with nearly three decades of experience 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 lend 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 to maintain its scale with moderate customer concentration risk. The company caters to a major apparel segment of men's wear, women's wear, children's wear, as well as other fashion accessories.

Comfortable capitalisation metrics – SAPL's capitalisation metrics is healthy as illustrated by gearing of 0.96 times in FY2019 as against 1.03 times in FY2018 and TOL/TNW of 1.11 times in FY2019 as against 1.24 times in FY2018 due to healthy accretion to reserves over the years, characterised by moderate long-term debt of Rs. 10.11 crore and short-term debt of Rs. 36.5 crore in FY2019.

Credit challenges

Moderate scale of operation – SAPL has a moderate scale of operation with a revenue of Rs. 134.79 crore in FY2019. 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 in an intensely competitive sector have resulted in limited bargaining power.

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 any 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.

Moderate coverage indicators – SAPL's financial profile is characterised by moderate coverage indicators. The company's interest coverage declined to 2.31 times in FY2019 from 2.87 times in FY2018 due to decline in OPBITDA to Rs. 8.7 crore in FY2019 from Rs. 11.8 crore in FY2018.

High working capital intensity –The company's working capital intensity (NWC/OI) increased to 44.30% in FY2019 from 34.12% in FY2018 due to stretched working capital cycle owing higher inventory and debtor levels in FY2019. Elevated working capital intensity in the recent past resulted in high working capital utilisation, which averaged at 87% from August 2018 to August 2019.

Liquidity position: Adequate

While the company's average working capital utilisation was high at 88% for the last 12-month period ending August 2019, its liquidity position is expected to remain adequate, given the modest capex plan, relatively low principal repayments and expected improvement in working capital intensity. Further, given ICRA's expectation of stable net cash accrual in FY2020, the company will be able to meet its near-term commitments through internal sources.

Rating sensitivities

Positive triggers: ICRA could upgrade SAPL's rating if it witnesses a sustained improvement in its scale of operations. Further, specific credit metrics that could lead to, but not necessarily be limited to, an upgrade would include TD/OPBITDA below 3.0 times on a sustained basis.

Negative triggers: Negative pressure on SAPL's rating could arise if its: (a.) liquidity position weakens due to stretched working capital intensity; (b.) interest coverage falls below less than 2.0 times; and (c.) DSCR falls below less than 1.3 times. Further, any adverse regulatory changes to export incentives may result in negative pressure on the rating.

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

Stanfab Apparels Private Limited (SAPL) was formed in 1993 by its promoter and managing director, Mr. E.R. Eswaran. It is a garments manufacturing company that manufactures and exports shirts, t-shirts, trousers and other garments for men, women and children across both woven and knitted garments. It has 12 manufacturing units across Tamil Nadu and approximately 3,625 employees. SAPL's sales are entirely exported, with its customer base spread across Europe, North America and Australia with notable clients being Primark Stores, UK, Bass Pro, USA, Jules, France, and S Oliver, Germany.

Key financial indicators (audited)

	FY2018	FY2019(provisional)
Operating Income (Rs. crore)	156.98	134.79
PAT (Rs. crore)	4.8	4.1
OPBDITA/OI (%)	7.54%	6.47%
RoCE (%)	12.06%	9.80%
Total Outside Liabilities/Tangible Net Worth (times)	1.24	1.11
Total Debt/OPBDITA (times)	3.87	5.35
Interest Coverage (times)	2.87	2.31
DSCR	1.67	1.64

Status of non-cooperation with previous CRA:

CRISIL has revised SAPL's rating to CRISIL BB+(Stable)/CRISIL A4+ (ISSUER NOT COOPERATING) in April 2019.

Any other information: None

Rating history for past three years

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

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 click here

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-(stable)
NA	Unallocated	NA	NA	NA	3.12	[ICRA]BBB-(stable)/ [ICRA]A3

Source: SAPL

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

Corrigendum

The Rating Rationale document dated October 17, 2019 has been corrected with revisions as detailed below:

- Status of non-cooperation with previous CRA (page 3) has been updated and changed from Not Applicable to 'CRISIL has revised SAPL's rating to CRISIL BB+(Stable)/CRISIL A4+ (ISSUER NOT COOPERATING) in April 2019'.

Analyst Contacts

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

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

Srinivasan R
+91 44 4596 4315
r.srinivasan@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) 020 6606 9999