

February 03, 2023

Scorpios Apparels Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term – Fund Based	12.50	12.50	[ICRA]A4; reaffirmed
Short Term – Non-fund Based	5.00	5.00	[ICRA]A4; reaffirmed
Long Term – Term loans	1.72	1.72	[ICRA]BB- (Stable); reaffirmed
Long Term/Short Term - Unallocated	12.51	12.51	[ICRA]BB- (Stable)/[ICRA]A4; reaffirmed
Total	31.73	31.73	

*Instrument details are provided in Annexure-1

Rationale

The ratings action continues to factor in SAPL’s long track record of operations and the extensive experience of its promoters in the garment export industry, which has facilitated healthy working relationships with major customers and repeat business over the years. The ratings note the company’s debt coverage indicators are supported by limited term loan obligations and reliance on interest-free unsecured loans from the promoter entity for partial funding requirements. The ratings are, however, constrained by SAPL’s modest scale of operations. Further, the company is exposed to high customer and geographical concentration risks with the top two customers from the UK region accounting for ~93% of the revenues in FY2022. This apart, SAPL’s working capital intensity remains high owing to stuck receivables and slow-moving inventory. Further, SAPL remains vulnerable to risks associated with foreign exchange rate fluctuations, material increase in raw material prices, as well as adverse changes in export incentive structure/ rates.

The pandemic-led operational and demand disruptions resulted in a significant decline in the company’s turnover during the past three fiscals, with a considerable stretch in its working capital intensity owing to elongated receivable as well as inventory turnover periods. While cost optimisation efforts led to improved margins, lower profits together with higher working capital requirements resulted in increased reliance on working capital borrowings and moderation in liquidity. Nevertheless, the Stable outlook reflects ICRA’s opinion that SAPL would report a gradual recovery in scale, along with the normalisation of the working capital cycle, while maintaining comfortable debt coverage metrics.

Key rating drivers and their description

Credit strengths

Experienced management and established track record of operations in garment exports business – SAPL’s promoters have considerable experience in garment exports, having incorporated the company in 1980. SAPL has long and established relationships with its major customers, leading to repeat orders every year.

Credit challenges

Modest scale of operations – SAPL’s scale of operations has remained modest over the years. Further, the company’s revenues declined by 17% to Rs. 24.4 crore in FY2022 from Rs. 29.6 crore in FY2021 owing to pandemic-led disruptions in operations and slowdown in demand in the UK (key exporting nation for SAPL). However, the revenues have picked up in the current fiscal with increased repeat business from new customers added in FY2022. In FY2023, the company has achieved sales of ~Rs. 22

crore till December 2022. ICRA expects the company to book ~Rs.30-32 crore revenues in FY2023 and a further 5-7% growth in FY2024.

High customer and geographical concentration risks – The major portion of SAPL’s business comes from its top two customers, Monsoon Accessorize Limited and White Stuff Limited, which are British retail outlets. In FY2022, these two companies accounted for 84% of SAPL’s total revenues, indicating high customer as well as geographical concentration risks. Therefore, the company’s performance is vulnerable to any adverse development at the customers’ end as well as adverse demand trends or developments that affect consumer spending and preferences in the UK market. However, the risk is mitigated to some extent as it has an established long-term relationship with its clients. Further, SAPL has demonstrated its ability to add new clients over the years, which provides comfort.

High working capital intensity – The working capital intensity of the company remains high with NWC/OI increasing to 142% in FY2022 against 119% in FY2021 owing to stuck receivables and slow-moving inventory levels. ICRA notes that the high inventory would take a year to normalize. However, none of the inventory would be written off. It is being used for the existing orders. However, the high net working capital intensity has been exerting pressure on SAPL’s cash flows, increasing the company’s short-term loans.

Susceptibility of profitability to foreign exchange fluctuations, significant increase in raw material prices and changes in export incentive structure/ rates – Similar to other apparel exporters, SAPL’s profitability is vulnerable to volatility in raw material prices, which have historically accounted for ~30-40% of its cost of goods sold. The company also remains exposed to forex risks, as it does not hedge the major part of its exports. Like other apparel exporters, high dependence on export incentives exposes its profitability and competitiveness in the international markets to any adverse change in the export incentive structure and rates.

Liquidity position: Stretched

SAPL’s liquidity profile remains stretched with a free cash and bank balance of ~Rs. 0.01 crore and a limited cushion (~13%) in the working capital limit. The company’s liquidity tends to move in accordance with seasonal requirements, as reflected in a lower average cushion of Rs. 2.45 crore in H2 FY2022 against Rs. 4.17 crore in H1 FY2022 (and Rs. 1.5 crore as on December 31, 2022). While absence of long-term debt repayments and major capital expenditure plans provides comfort, the company’s liquidity is supported by interest-free unsecured loans from promoters. Any major withdrawals could, thus, affect its liquidity profile.

Rating sensitivities

Positive factors – The ratings could be upgraded if SAPL reports a sustained improvement in its scale and working capital intensity which results in comfortable liquidity profile. Interest coverage above 2.3 times, on a sustained basis, may trigger a rating upgrade.

Negative factors – The ratings could witness a downward revision if SAPL reports a decline in scale or profitability, resulting in a moderation in coverage metrics. Further, stretched working capital intensity or withdrawal of promoter-infused unsecured loans, which weakens its liquidity profile, could also result in ratings downgrade. DSCR below 1.1 times, on a sustained basis, may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Textiles Industry (Apparels)
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1998, SAPL manufactures and exports women's garments. It was initially set up as a manufacturing unit for Nitya SARL, a France-based fashion house specialising in women's garments promoted by a Paris-based Indian designer, Mr. Janak Datwani.

The company deals only in woven fabric and manufactures garments for women. The garments manufactured are made of diverse fabrics including silks, linen, handloom cotton chambray, poly and viscose georgette, Lycra and different blends of wools, cotton, rayon and polyester.

SAPL has a manufacturing capacity of 5,000-6,000 pieces per day at three plants – two in Okhla (leased), Delhi and one in Faridabad, Haryana (company owned). All the business processes like designing, procurement, packaging, embroidery and dispatch are undertaken at its Faridabad plant, whereas Okhla plants have only stitching and finishing facilities.

Key financial indicators

	FY2021	FY2022
Operating Income (Rs. crore)	29.6	24.4
PAT (Rs. crore)	0.2	0.2
OPBDIT/OI (%)	5.0%	5.6%
PAT/OI (%)	0.7%	0.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.4
Total Debt/OPBDIT (times)	13.1	14.0
Interest Coverage (times)	1.8	1.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: SAPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

S. No	Instrument	Type	Current rating (FY2023)		Chronology of Rating History for the past 3 years					
			Amount rated (Rs. crore)	Amount outstanding as of December 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					Feb 3, 2023	Dec 9, 2021	Oct 29, 2021	Nov 25, 2020 July 21, 2020	--	
1	Fund Based	Short-Term	12.50	--	[ICRA]A4	[ICRA]A4	[ICRA]A4; (ISSUER NOT COOPERATING)	[ICRA]A4+	--	
2	Non-Fund Based	Short-Term	5.00	--	[ICRA]A4	[ICRA]A4	[ICRA]A4; (ISSUER NOT COOPERATING)	[ICRA]A4+	--	
3	Term loans	Long Term	1.72	0.96	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)			--	
4	Unallocated	Long Term/ Short Term	12.51	--	[ICRA]BB-(Stable)/ [ICRA]A4	[ICRA]BB-(Stable)/ [ICRA]A4	[ICRA]B+(Stable)/[ICRA]A4; (ISSUER NOT COOPERATING)	[ICRA]BB (Negative)/ [ICRA]A4+	--	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Short Term – Fund Based	Simple
Short Term – Non-Fund Based	Very Simple
Long Term – Term loans	Simple
Long Term/Short Term - Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short Term – Fund Based	NA	NA	NA	12.50	[ICRA]A4
NA	Short Term – Non-Fund Based	NA	NA	NA	5.00	[ICRA]A4
NA	Long Term – Term loans	FY2021	NA	FY2025	1.72	[ICRA]BB- (Stable)
NA	Long Term/Short Term - Unallocated	NA	NA	NA	12.51	[ICRA]BB- (Stable)/ [ICRA]A4

Source: SAPL

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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