March 09, 2023

S.A.N. Garment Manufacturing Private Limited: Ratings upgraded and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/TL	9.97	21.51	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB- (Stable), assigned for the enhanced amount
Short Term - Fund Based/PC/BD	43.00	87.00	[ICRA]A3+; Upgraded from [ICRA]A3, assigned for the enhanced amount
Short Term - Interchangeable	0.00	(3.00)^	[ICRA]A3+; Assigned
Short Term - Non-Fund Based	0.50	0.00	-
Total	**53.47**	**108.51**	

**Instrument details are provided in Annexure-I; ^sub-limit of PC*

Rationale

The ratings upgrade factors in the healthy improvement in the performance of S.A.N. Garment Manufacturing Private Limited (SGMPL) in FY2022, and expectation of a sustained comfortable growth in revenues over the medium term. SGMPL reported an approximately 150% growth in revenues in FY2022 coupled with an improvement in the operating margin. Moreover, the revenues are expected to grow by more than 75% in the current fiscal to more than Rs. 340 crore, backed by healthy order flow from the existing customers. ICRA expects the company to sustain a comfortable growth in the medium term as well, led by its operational strengths, which provide it with a competitive edge. SGMPL enjoys long-term relationships with leading women's wear retail houses, which have been facilitating repeat business. However, the customer concentration risk is high with the top 10 customers accounting for more than ~90% of its revenues in FY2021 and FY2022. Healthy growth in revenues and earnings resulted in strong debt coverage indicators with an interest coverage of 8.8 times in 9M FY2023 (provisional). The extensive experience of its promoters spanning over two decades in the apparel industry, provides comfort. The ratings also take comfort from the financial risk profile of the company, characterised by low gearing.

The ratings are, however, constrained by the high geographical concentration risk with more than 80% of the revenues coming from the European region. Moreover, SGMPL remains vulnerable to risks associated with foreign exchange rate fluctuations, though the risk is partially mitigated by the company hedging its receivables through forward contracts. SGMPL's competitiveness and profitability remain vulnerable to changes in export incentives offered by the Government. The ratings also continue to factor in the intense competition in the garment export industry from other domestic players as well as other low-cost textile exporting countries, which limits the company's pricing power. The ratings further consider the changing trends in the fashion industry besides dependence on consumer tastes and economic cycles of the destination countries.

The Stable outlook reflects ICRA's expectation of a sustained comfortable revenue growth, which together with improving utilisation of enhanced capacities, is likely to support a gradual improvement in SGMPL's financial risk profiles.

Key rating drivers and their description

Credit strengths

Healthy improvement in revenues and profitability in FY2022 and in the current fiscal – The performance of the apparel industry was adversely impacted owing to the pandemic. SGMPL reported a 66% decline in its revenues in FY2021. However, with improved traction in demand, sales started improving on a sequential basis subsequently. With improved market conditions, the company's turnover increased to Rs. 191 crore in FY2022 vis-à-vis Rs. 77 crore in FY2021. Further, the company is expected to report revenues of more than Rs. 340 crore in FY2023, corroborated by a healthy growth reported by the company in 9M FY2023 and a strong order book position.

Extensive experience of promoters with established track record in apparel industry – SGMPL is promoted by Mr. Anupam Khandelwal and Mr. Abhinav Khandelwal, who have more than two decades of experience in the readymade garment industry. Over the years, the promoters have built strong relationships with various well-known apparel retailers across the globe, leading to repeat orders every year.

Established relationship with leading European women's wear retail houses with global presence – SGMPL derives the bulk of its revenues (more than 70% in FY2022) from the export of garments to Primark Limited, ASDA Stores Ltd., Punto FA, etc. The company has a long association with its customers, resulting in repeat orders from them. In addition, the company has been adding new clients over the years.

Comfortable debt coverage metrics and liquidity profile – The capital structure of the company remained comfortable with a gearing of 0.7 times as on March 31, 2022. Further, the coverage metrics improved in FY2022, reflected in an interest cover of 7.5 times in FY2022 against 0.1 times in FY2021. ICRA notes that the company has availed a medium-tenure loan in the current fiscal towards its capex requirements, owing to which moderation is expected in its DSCR in FY2024. Nevertheless, it is expected to remain comfortable. In addition, the rating draws comfort from the company's adequate liquidity position, supported by an improvement in its working capital cycle, and tie-up of additional bank facilities.

Credit challenges

Seasonality inherent in operations, with Q1 and Q4 being peak seasons –SGMPL generates more than 70% of its revenues during Q1 and Q4. Any distress in operations during these quarters can impact the company's revenues and profitability significantly.

High customer and geographical concentration risks – SGMPL continues to face high customer and geographical concentration risks with its top 10 clients from the European region accounting for more than 90% of its revenues in FY2021 and FY2022. 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 European market. However, the risk is mitigated to some extent as it has established long-term relationships with its clients and has been gradually adding new clients to its portfolio across different countries over the years.

Limited bargaining power due to significant competition in garment exports business – SGMPL faces intense competition in the garment export industry from other domestic players as well as other low-cost textile exporting countries, which limits the company's pricing power.

Exposed to volatile raw material prices, demand trends in key export markets, forex rates and changes in export incentive structure – Similar to other apparel exporters, SGMPL's profitability is vulnerable to volatility in raw material prices, which have historically accounted for ~30-40% of the cost of goods sold. Further, SGMPL's profitability is exposed to the volatility in foreign currency exchange rates as most of its revenue is dominated by exports, though partly mitigated by the hedging practice through forward contracts. Moreover, high dependence on export incentives exposes its profitability and competitiveness in international markets to any adverse change in the export incentive structure and rates.

Liquidity position: Adequate

SGMPL's liquidity position is adequate, corroborated by a cushion of more than ~Rs. 20 crore in its fund-based working capital limits and free cash and bank balances as on December 31, 2022. The total working capital limits of the company is enhanced by Rs. 87 crore in January 2023, which provides comfort. SGMPL has repayment obligation of Rs. 4.9 crore in FY2024, however, ICRA expects the company's fund flow from operations to be adequate to fund its debt repayments as well as margin money requirements for its working capital and capital expenditure plans.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if SGMPL demonstrates a sustained improvement in its scale and profitability, while effectively managing its working capital cycle, leading to an improvement in the financial risk profile.

Negative factors – The ratings may be downgraded if pressure on revenues and profitability, and/or a stretch in the working capital cycle results in weakening of debt coverage metrics, with an interest cover of less than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

S.A.N. Garment Manufacturing Company Limited (SGMPL) was originally set up as a proprietorship concern named, SAN International, in 1999. In April 2011, the entity was taken over by another promoter-owned company and was renamed as S.A.N. Garment Manufacturing Company Limited. The company manufactures and exports readymade garments for women like skirts, dresses, tops, etc., and has seven manufacturing facilities, all of which are located in Gurugram, Haryana. The company's products are primarily exported to European countries like Germany, France, and Switzerland.

Key financial indicators (Audited)

Consolidated	FY2021	FY2022
Operating income	76.6	191.0
PAT	-5.8	16.0
OPBDIT/OI	0.2%	14.0%
PAT/OI	-7.6%	8.4%
Total outside liabilities/Tangible net worth (times)	0.9	1.3
Total debt/OPBDIT (times)	319.6	2.0
Interest coverage (times)	0.1	7.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Mar 9, 2023	Dec 14, 2021	Oct 22, 2020	Mar 19, 2020	Apr 4, 2019
1	Term Loan	Long Term	21.51	21.51	**[ICRA]BBB (Stable)**	[ICRA]BBB- (Stable)	[ICRA]BB+	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Fund based	Short Term	87.00	-	**[ICRA]A3+**	[ICRA]A3	[ICRA]A4+	[ICRA]A3	[ICRA]A3
3	Non-Fund based/Interchangeable	Short Term	(3.00)	-	**[ICRA]A3+**	-	-	-	-
4	Non-Fund based	Short Term	0.00	-	-	[ICRA]A3	[ICRA]A4+	[ICRA]A3	[ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based/TL	Simple
Short Term - Fund Based	Simple
Short Term - Non-Fund Based/ Interchangeable	Very Simple

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	Long term – Fund based/TL	FY2021	-	FY2025	21.51	[ICRA]BBB (Stable)
NA	Short term – Fund based	-	-	-	87.00	[ICRA]A3+
NA	Short term – Non-Fund based/Interchangeable	-	-	-	(3.00)	[ICRA]A3+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Gaurav Singla
+91 124 4545 366
gaurav.singla@icraindia.com

Preeti Rana
+91 124 4545 887
preeti.rana@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

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches