November 16, 2023

SAPL Industries Pvt Ltd: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	55.00	55.00	[ICRA]BB+(Stable); reaffirmed
Short Term – Non-Fund based/Letter of Credit/Bank guarantee	25.00	25.00	[ICRA]A4+; reaffirmed
Long/Short Term – Unallocated	10.00	10.00	[ICRA]BB+(Stable)/[ICRA]A4+; reaffirmed
Long term – Proposed Term Loan	-	25.00	[ICRA]BB+(Stable); assigned
Total	**90.00**	**115.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings 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 also consider the likely improvement in the financial profile of SAPL in the coming quarters, driven by confirmed orders in hand worth ~Rs. 135.0 crore and established relationships with key customers, ensuring repeat orders. SAPL's revenues have increased by 23% in FY2023. Better margins in orders executed and higher economies of scale helped improve the operating margin to 7.6% in FY2023 from 4.9% in FY2022. In the first six months of FY2024, the entity had achieved a turnover of Rs. 123.0 crore. The company is likely to achieve an operating income of Rs. 290-300 crore in FY2024 with healthy order book in hand.

However, the ratings remain constrained by the company's high reliance on its top five customers and intense competition from players in the low-cost apparel manufacturers in other Asian countries. ICRA notes that the company is undergoing capacity expansion and plans to set up a manufacturing unit with 700 machines in Orissa. Commercial production is expected to commence from October 2024. Any delay in the project, resulting in cost overrun would be a key monitorable. Also, the proposed term loan for the project is likely to exert pressure on the liquidity profile of the entity. As the company's major revenues are derived from exports, ICRA also factors in the exposure of the company's margins to foreign exchange rate fluctuations, along with Government regulations and duty structures across the markets.

The Stable outlook on the rating reflects ICRA's expectation that SAPL will continue to benefit from the established relationship 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 a senior management team with more than 30 years of experience in the garments industry.

Established relationship with reputed international clientele – SAPL's main customers include major international retailers like 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, among others. Established relationship with these clientele, quality products and timely order execution helped the company get repeat orders from existing customers and acquire new customers. In FY2023, in the domestic market, it added another key client, Trent Limited.

Credit challenges

High customer concentration risk – Notwithstanding the long-term client relationships, the company is exposed to high customer concentration risk with around ~76% of its revenues derived from the top five customers in FY2023. However, comfort can be drawn from the fact that SAPL has established relationships with most of these clients, which result in repeat orders.

Exposed to project related risks, including risks associated with stabilisation of the plant – The commercial operation of the ongoing plant in Orissa is scheduled to commence from October 2024. In the interim period, the entity would remain exposed to project-related risks, including the risk of commissioning the project within the budgeted cost and time, stabilising the plant and achieving desired process parameters and cost efficiencies. However, ICRA notes that a part of civil and structural works has been started. Besides, the major plant and machinery suppliers have been identified and supply of the same is expected to start in the near term.

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, whereby it hedges more than 80% of its forex exposure. 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. 21.9 crore as on March 31, 2023. Average utilisation of working capital limits stood at 78% in the last 12 months ended in September 2023. ICRA expects SAPL to comfortably service its debt obligations as net cash accruals are expected to further improve in FY2024.The proposed debt funded capex would increase its repayment obligations from FY2025. The term loan availed for the ongoing capex will give rise to debt repayment obligation of Rs. 24 crore in five years. The repayment obligations stand at Rs. 0.9 crore, Rs. 5.1 crore and Rs. 4.7 crore in FY2024, FY2025 and FY2026, respectively. However, the earnings of the company are likely to be sufficient in funding its capex and debt obligations.

Rating sensitivities

Positive factors – ICRA could upgrade SAPL's ratings if the company can improve its capital structure and debt protection metrics. More efficient working capital management, as SAPL pursues its growth objectives, would also be a key for higher ratings. Specific credit metrics that could lead to an upgrade of ratings include OPBDITA/Interest of more than 3.0 times on a sustained basis.

Negative factors – Pressure on SAPL's ratings may arise if there is any material reduction in the company's profitability and cash accruals, resulting in pressure on debt coverage metrics. Any delay in the commissioning of the new plant in Orissa or significant cost overrun, resulting in tightening of liquidity position, would be a key monitorable. Specific credit metrics that could lead to a downgrade of ratings include DSCR below 1.2 times on a sustained basis.

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 ratings are based on the standalone financial profile of the company.

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 Pvt. Ltd. with effect from June 16, 2015. The company manufactures and exports garments to customers in the US, the UK and other European countries. At present, it has an installed capacity of 64 lakh pieces per annum. The company primarily exports to customers like Primark, C&A, The Children's Place, Tendam and Bestseller among others. In the domestic market, its major customers include Reliance Retail and Trent Limited.

Key financial indicators (audited)

SAPL	FY2022	FY2023
Operating income	211.6	260.0
PAT	3.7	6.4
OPBDIT/OI	4.9%	7.6%
PAT/OI	1.7%	2.5%
Total outside liabilities/Tangible net worth (times)	1.9	1.6
Total debt/OPBDIT (times)	8.3	4.1
Interest coverage (times)	1.5	2.4

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 (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Nov 16, 2023	Sep 15, 2022	Jan 28, 2022	Dec 31, 2020	Dec 02, 2020
1	Cash Credit	Long term	55	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	EPC/PCFC/FBD	Short term	-	-	-	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
3	Letter Of Credit/ Bank Guarantee	Short term	25	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

4	**Unallocated**	Long term and short term	10	-	**[ICRA]BB+ (Stable)/ [ICRA]A4+**	**[ICRA]BB+ (Stable)/ [ICRA]A4+**	**[ICRA]BB+ (Stable)/ [ICRA]A4+**	**[ICRA]BB+ (Stable)/ [ICRA]A4+**	**[ICRA]BB+ (Stable)/ [ICRA]A4+**
5	**Proposed Term Loan**	Long term	25	-	**[ICRA]BB+ (Stable)**				

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Letter of Credit/Bank Guarantee	Very Simple
Unallocated	NA
Proposed Term Loan	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	Cash Credit	-	-	-	55.00	[ICRA]BB+(Stable)
NA	Letter of Credit/ Bank Guarantee	-	-	-	25.00	[ICRA]A4+
NA	Unallocated	-	-	-	10.00	[ICRA]BB+(Stable)/A4+
NA	Proposed Term Loan	-	-	-	25.00	[ICRA]BB+(Stable)

Source: SAPL

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

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

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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.

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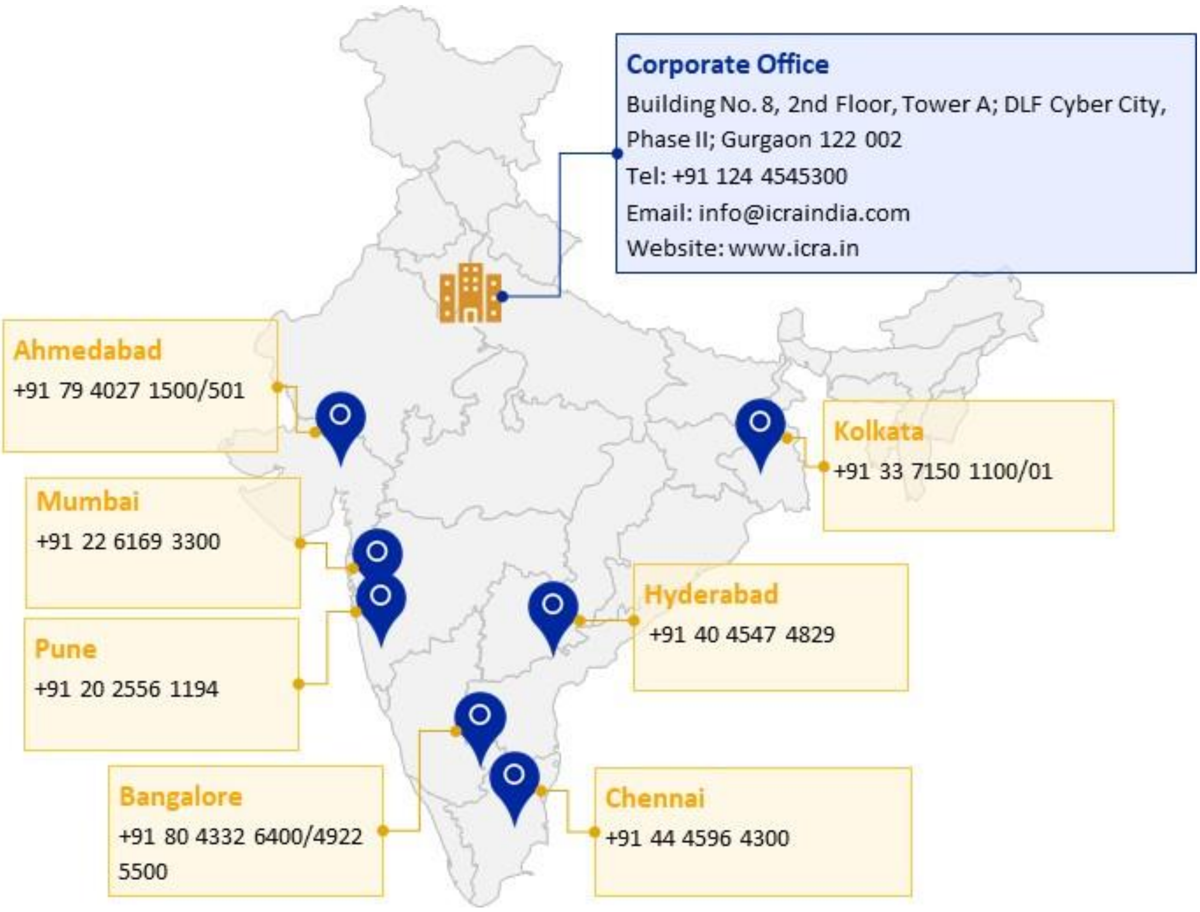

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