June 28, 2024

S.A.N. Garment Manufacturing Private Limited: 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/TL	21.51	45.50	[ICRA]BBB (Stable); reaffirmed/assigned
Short Term - Fund Based/PC/BD	87.00	121.00	[ICRA]A3+; reaffirmed/assigned
Short Term – Interchangeable	(3.00)^	(3.00)^	[ICRA]A3+; reaffirmed
Total	**108.51**	**166.50**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings action for S.A.N. Garment Manufacturing Private Limited (SGMPL) factors in its adequate financial risk profile, as reflected in a healthy revenue growth, higher internal accrual generation and adequate liquidity position in FY2024. ICRA expects the same would sustain in the near term. SGMPL's revenues grew to Rs. 458 crore in FY2024 (Rs. 399 crore in FY2023), while its operating margins improved to 11.9% (10% in FY2023), driven by increasing economies of scale and product mix. The company's debt levels increased in H2 FY2024 due to elevated funding requirements, resulting in some moderation in the debt coverage metrics (Total Debt/OPBIDTA of 3.1 times in FY2024 against 2.4 times in FY2023). SGMPL is expected to report higher revenue growth and accrual generation in FY2025 on the back of its healthy order book position and stable demand, which coupled with no significant addition in debt level is likely to improve the debt coverage metrics. Additionally, the ratings continue to draw comfort from the company's long operational track record in the garment exports industry and its established customer base, which includes some leading European women's wear retail houses. While the customer concentration risk remains high with the top 10 customers accounting for more than ~80% of the revenues, the risk is mitigated to some extent, given the company's long relationships with its key customers, which have facilitated repeat businesses over the years.

The ratings are, however, constrained by the high geographical concentration risk with more than 60% of the revenues coming from the European region. Moreover, SGMPL's competitiveness and profitability remain vulnerable to changes in export incentives offered by the Government as well as volatility in foreign exchange rates as most of its revenue is generated from exports. However, the risk is mitigated to some extent as the company partially hedges its foreign exchange exposure through forward contracts. SGMPL is also subject to intense competition from other domestic players as well as companies from other low-cost textile exporting countries, which limits the company's pricing flexibility. Additionally, the company's performance remains vulnerable to changing trends in the fashion industry, besides dependence on consumer tastes and economic cycles of the destination countries.

The Stable outlook on the long-term rating reflects ICRA's expectation that SGMPL's credit profile will be supported by a steady revenue growth and accrual generation on the back of healthy utilisation of enhanced manufacturing capacities.

Key rating drivers and their description

Credit strengths

Established track record of the company and extensive experience of its promoters in the apparel export industry – SGMPL is promoted by Mr. Anupam Khandelwal and Mr. Abhinav Khandelwal, who have more than two decades of experience in the apparel export 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. The company has added capacities over the years, however, it continues to focus primarily on women wear.

Established relationship with leading European women's wear retail houses with global presence – SGMPL derives the bulk of its revenues (more than 80% in FY2024) 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 to its portfolio over the years.

Adequate financial risk profile – SGMPL's top line rose 15% to Rs. 458 crore in FY2024 (against Rs. 399.1 crore in FY2023), supported by healthy order flow from major customers. Its operating margins have also remained stable at 10-12% in the past two years, supporting accrual generation over this period. The capital structure has been comfortable with a gearing of 1.2 times as on March 31, 2024. Its debt coverage indicators remain adequate with an interest coverage of 5.9 times in FY2024. SGMPL's financial profile is expected to remain adequate, supported by increased accrual generation and no significant increase in its debt levels.

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 as these are peak quarters. Any distress in operations during these quarters can impact the company's revenues and profitability significantly.

Exposed to high customer and geographical concentration risks – SGMPL continues to face high customer and geographical concentration risks with its top 10 clients accounting for more than 90% of its revenues and the UK accounting for around 60% of revenues in FY2024. 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 companies from other low-cost textile exporting countries, which limits SGMPL's pricing power.

Vulnerable to volatile raw material prices, demand trends in key export markets, forex rates and changes in export incentive structure – Like other apparel exporters, SGMPL's profitability is vulnerable to volatility in raw material prices, which have historically accounted for 30-40% of its cost of goods sold. Further, SGMPL's profitability is exposed to the volatility in foreign currency exchange rates as most of its revenue comes from exports, though the same is 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**, supported by steady accrual generation, free cash and bank balances of ~Rs. 12 crore and cushion in the form of undrawn bank lines of Rs. 17 crore as on March 31, 2024. SGMPL has debt repayment obligation of Rs. 8.56 crore and is likely to incur modest capex of ~Rs. 10 crore in FY2025. 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 its 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. A specific metric for downgrade includes 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 Textiles-Apparels
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

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 renamed as S.A.N. Garment Manufacturing Company Limited. The company is involved in the manufacturing and export of 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

SGMPL – Standalone	FY2023	FY2024
	Audited	Provisional
Operating Income (Rs. crore)	399.1	458.1
PAT (Rs. crore)	25.2	33.0
OPBDIT/OI (%)	10.0%	11.9%
PAT/OI (%)	6.3%	7.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.8
Total Debt/OPBDIT (times)	2.4	3.1
Interest Coverage (times)	6.4	5.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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 (FY2025)			Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as on 31st March 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				June 28, 2024	-	Mar 9, 2023	Dec 14, 2021
1 Term Loan	Long Term	45.5	45.5	**[ICRA]BBB (Stable)**	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2 Fund based	Short Term	121.00	-	**[ICRA]A3+**	-	[ICRA]A3+	[ICRA]A3
3 Non-Fund based/Interchangeable	Short Term	(3.00)	-	**[ICRA]A3+**	-	[ICRA]A3+	- [ICRA]A3+
4 Non-Fund based	Short Term	0.00	-	-	-	-	[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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term – Fund based/TL	FY2021	-	FY2034	45.5	[ICRA]BBB (Stable)
NA	Short term – Fund based	-	-	-	121.00	[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

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+ 91 22 61143442
kinjal.shah@icraindia.com

Deepak Jotwani
+91 124 4545870
deepak.jotwani@icraindia.com

Gaurav Singla
+91 124 4545366
gaurav.singla@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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.

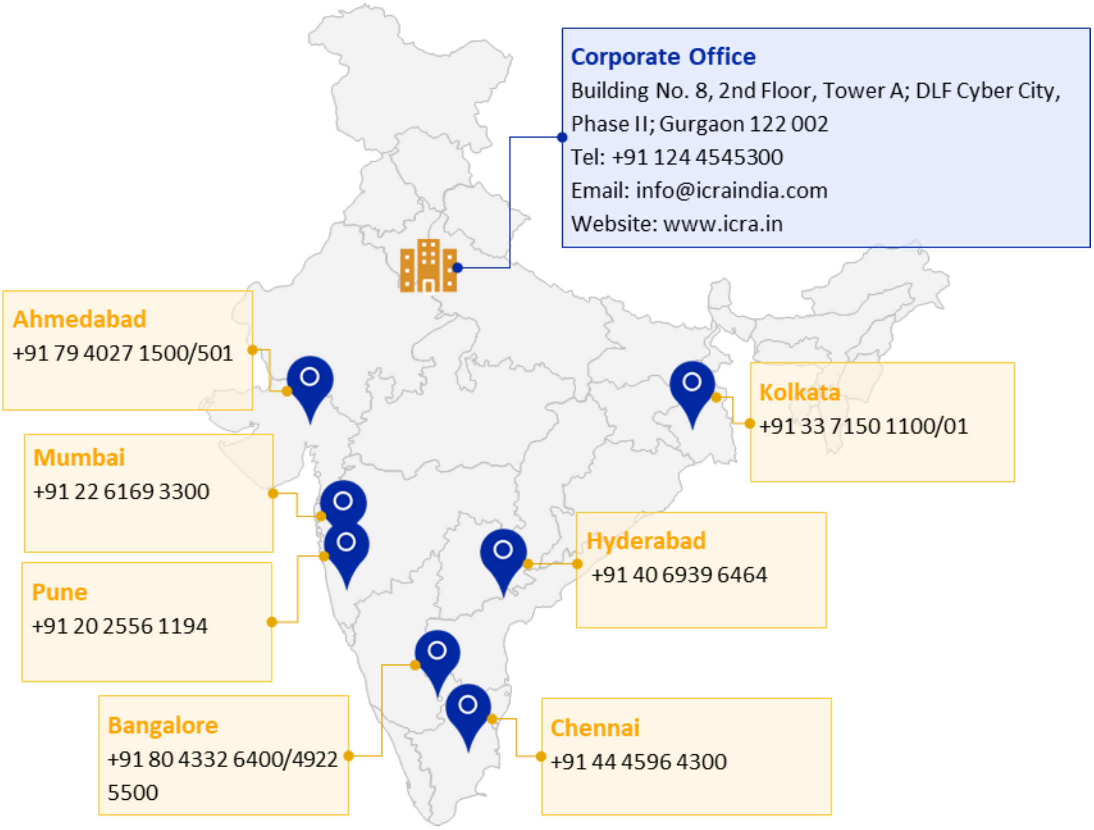
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.