

Rating Rationale

SRG APPARELS LIMITED

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs.136.13 Crores of SRG Apparels Ltd ('SRGAL' or the 'Company')

Particulars

Facilities**	Amount (Rs. Crs)		Tenure	Ratings*	
	Previous	Present#		Previous (June 2019)	Present
Fund Based					
Working Capital Limit	-	80.00	Long Term	BWR BBB+/Stable	BWR BBB+/Stable Reaffirmed
Cash Credit	10.00	(10.00)			
WCDL	10.00	(10.00)			
Term Loan	36.78	21.13			
EPC/PCFC	-	(45.00)	Short Term	BWR A2	BWR A2 Reaffirmed
FBD/FBP/FBN	-	(50.00)			
PCFC/FBN/E PC/FBD	85.00	25.00			
Non Fund Based					
Letter Of Credit	10.00	(10.00)			
Treasury Limit	-	10.00			
Total	151.78	136.13	Rupees One Hundred And Thirty Six Crores And Thirteen Lakhs Only		

Note: Annexure I provides details of the credit facilities ; *Please refer to BWR website www.brickworkratings.com/ for definition of the ratings



Rating Action/Outlook

The reaffirmation of ratings factors the consistent operational and financial performance of the company. The ratings continue to factor the promoters' extensive experience in the garment manufacturing business, integrated manufacturing operations, established operational track record, strong customer base, moderate financial risk profile and locational advantages.

However, the ratings remain constrained by the highly competitive nature of the textile industry and modest scale of operations, customer concentration risk, exposure to forex fluctuations, impact of COVID-19 on business operations and impact of Mothercare UK's bankruptcy on business of SRG Apparels Ltd

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The outlook may be revised to Positive if the company reports better-than-estimated growth in its operations and profitability while maintaining its credit risk profile.

Brickwork Ratings (BWR) takes cognizance of the Covid-19 regulatory package and related guidelines issued by the Reserve Bank of India (RBI) to mitigate the burden of debt servicing due to disruptions on account of the Covid-19 pandemic and ensure the continuity of viable businesses. BWR also takes note of the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated 30 March 2020 in this regard. BWR notes that SRG Apparels Ltd has availed the relief under the aforementioned package with its lender, viz. Kotak Mahindra Bank and its scheduled payments to the bank have been deferred in the interim. BWR would not be considering such non-payments as default for the time being. BWR will continue to monitor the developments in this regard and analyse the impact, if any, on the Company's credit profile

The outlook may be revised to Negative if significant decline in revenue, profitability margins, further elongation of working capital cycle or further slowdown of business operations due to COVID-19

Key Rating drivers

Credit Strengths:



- **Established operational track record and experienced promoters** - The Company has an established track record with more than three-decade-long experience in manufacturing and export of apparels.
- **Strong customer base** - Over the years, the promoters have fostered relationships with leading domestic and global apparel retailers, establishing a strong client base. The company has been getting repeat business from these clients on a sustained basis, which has facilitated growth in its scale of operations. This also reflects favourably on the company's track record and competitive positioning in the apparel sector. Some of the key clients are UK & US based high street labels viz. Mothercare, Mini Boden, Next, John Lewis, Ralph Lauren, etc. The Company has retained its top 3 clients for over 13 years.
- **Integrated operations aids in cost rationalisation-** The company's operations are vertically integrated from spinning, knitting, dyeing to manufacture of ready made garments. This helps them to control the costs at various points of supply chain and maintain a reasonable level of profit while meeting the price expectation of customers.
- **Continuation of Moderate Financial Risk Profile:** SRGAL's revenue has increased y-o-y over the last four years. Operating Income increased by (~20.4%) from Rs.235.23 Crs in FY18 to Rs.283.21 Crs in FY19, contributed by higher quantum of orders from existing customers as well fresh orders from new customers. Out of total operating income of Rs.283.21Crs in FY19, Rs.129.81Crs constitutes domestic sales (~45%) and Rs.153.39Crs (55%) is derived from exports. Garments contributed ~57% of total operating income, yarn ~ 21.35%, fabric ~7.28%, cotton waste ~ 2.30%, dyeing charges ~ 6.36% and the remaining is embroidery charges, revenue from duty drawback, income from Merchandise export incentive scheme and rebate on state levies. During FY20 (Provisional), total operating revenue remained flat at Rs.288.86Crs. Few major orders could not be materialized during Feb and March 2020 on account of the outbreak of COVID-19. Tangible Net Worth improved from Rs.92.40 Crs as on March 31, 2018 to Rs.112.53 Crs as on March 31, 2019 on account of retention of profit. As on March 31, 2020 (Provisional) the TNW further improved to Rs.129.58Crs. Gearing is at adequate levels at 1.21 times as on March 31, 2018 and 1.16 times as on March 31, 2019. ISCR is sufficient at 7.00 times in FY18 and 5.37 times in FY19. DSCR is moderate at 2.63 times in FY18 and 1.83 times in FY19. Operating profit margins declined from 16.40% in FY18 to 11.81% in FY19 mainly because of additional liability of about Rs.4.5 crores towards gratuity. In FY20, the margin improved to 12.71%.
- **Locational advantages:** The company is located at Tirupur, which is a major textile hub. This provides location specific advantages in terms of easy accessibility to raw materials, clientele and availability of labour.

Credit Constraints:

- **Highly competitive nature of the industry and modest scale of operations** - The company operates in a highly competitive business environment, facing stiff competition from both organised and unorganised players. The intense competition in the industry continues to limit the profitability of the Company. Further, the scale of operations of the Company is comparatively modest. The competitive risk is partially mitigated as SRGAL has been operating for more than two decades and is one of the prominent and reputed textile company in Tirupur. They also have long standing relationships with major players and niche portfolio
- **Exposure to forex fluctuations:** Profitability is exposed to forex rates as more than 55% revenue is derived from exports. However, forex risk is managed through Packing Credit facility availed in foreign currency and Forward Contracts. Further the company has converted all its term loans into foreign currency term loan to hedge against forex volatility
- **Limited bargaining power due to significant competition in garment exports business** - The intense competition that the company faces, not only from other textile exporters from India, but also from other low-cost garment exporting countries, limits its bargaining power/ pricing ability, thereby constraining its margins. However, a strong customer relationship and superior product portfolio helps to maintain its competitive position.
- **Customer concentration risk:** The top 5 customers viz. Mothercare, Hanna Andersson, Ralph Lauren, Go Fashion India Pvt Ltd contribute ~40% of the company's revenue. Revenues and earnings depend on the performances of its key customers, apart from other factors such as regulations and duty structures across markets. The risk is mitigated to an extent by the established relationship with its key clientele and addition of new customers in recent fiscals
- **Impact of Mothercare UK's bankruptcy on business of SRGAL:** One of SRGAL's main customers Mothercare, UK has filed for bankruptcy . Around 55% of the export sales is towards Mothercare. The impact is mainly on Mother Care UK operations where the SRGAL was catering to sales of around Rs.10 crore every year, where the sales are likely to get reduced in the coming year. The balance of around Rs. 60 crore of sales are to Mothercare global brands which has franchises across the world, and the company is continuously supplying to its franchise stores at Singapore, Malaysia, Europe etc
- **Impact of COVID-19 on business operations:** Covid-19 pandemic has led to business slowdown during Q1FY21 and the challenge for the textile industry will continue even after situation stabilises. As the fallout from the Covid-19 pandemic worsens, the sectors most vulnerable to consumer sentiment and discretionary spending like textile are likely to be severely impacted. Exports have witnessed a significant drop mainly due to COVID-19, which impacted sentiment in the European market — the largest for Indian exporters.

- The drop is mainly due to weak demand from many customers or witnessing lower sales. However, this risk is partially mitigated by establishing a long standing relationship with well reputed clients. SRGAL have been getting repeat orders from the top reputed clients on a y-o-y basis. Further, SRGAL mainly caters to the kids/infants segment where there is a continuous demand for garments. The ability of the company to manage regular order inflow and its operations would be a key rating sensitivity

Analytical Approach

For arriving at its ratings, Brickwork Ratings has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale). The company does not have any subsidiaries.

Rating Sensitivities

Positive

- Sustained improvement in scale of operations
- Prudent working capital management to improve liquidity profile and profitability metrics

Negative :

- Deterioration in scale of operations
- Specific credit metrics that could lead to a downgrade of SRGAL rating include gearing above 1.50 times and ISCR and DSCR less than 1.00 times on a sustained basis
- Receivable days exceeding 120 days

Liquidity - Adequate:

Working capital utilisation is in the range of 50% to 60% and the company has limited access to additional fund based facilities. Current ratio is moderate at 1.03 times as on March 31, 2019 and 1.12 times as on March 31, 2020 (Provisional). Cash and Cash Equivalents were at Rs.4.00Cr as on March 31 2020 (Provisional). Debt repayment is in the range of around Rs.13Cr to Rs.14Cr for FY21 BWR estimates the cash accruals of the company to be in the range of Rs.25Cr to Rs.26Cr in FY21 which would be sufficient to meet the debt obligations. BWR notes that the company has availed the moratorium benefits from its lender which is expected to provide short term liquidity support to the company.



About the Company

SRG Apparels Ltd was originally set up in 1989 as a proprietorship concern Prime Tex at Tirupur, Tamil Nadu. Later, in 1999, the Company was incorporated as SRG Apparels Pvt Ltd and during FY18, the Company was reconstituted as SRG Apparels Ltd. The company's registered office is at Tirupur, Tamil Nadu. SRGAL is a fully integrated textile manufacturer, engaged in manufacturing and exports of knitwear products for renowned brands in the domestic and export markets, with focus on knitted garments for infants and children. The manufacturing units are spread over 7,00,000 sq ft area across 14 locations in the textile belt of Tirupur, with a total capacity of 12,50,000 pcs/month. Domestic and exports sales contribute almost equally towards the total revenue of the company.

Mr. R Govindaraju is the Managing Director

Financial Performance

Key Financial Indicators:

Particulars		31 Mar 2018	31 Mar 2019	31 Mar 2020
		Audited	Audited	Provisional
Net Revenue	Rs. Cr	235.23	283.21	288.86
EBIDTA	Rs. Cr	38.58	33.44	36.71
Profit After Tax	Rs. Cr	16.62	20.04	17.09
Tangible Net Worth	Rs. Cr	92.40	112.53	129.58
Total Debt : Tangible Net Worth	Times	1.21	1.16	0.60
Current Ratio	Times	1.01	1.03	1.12

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - Nil

Rating History for the last three years [including withdrawal and suspended]

Facilities**	Current Rating (July 2020)			Ratings History		
	Type	Amount # (Rs. Cr)	Ratings	June 2019	2018	2017
Fund Based						
Working Capital	Long Term	80.00	BWR BBB+/Stable Reaffirmed	BWR BBB+/Stable	-	-
Cash Credit		(10.00)				
WCDL		(10.00)				
Term Loan		21.13				
EPC/PCFC	Short Term	(45.00)	BWR A2 Reaffirmed	BWR A2	-	-
FBD/FBP/FBN		(50.00)				
PCFC/FBN/EPC /FBD		25.00				
Non Fund Based						
Letter Of Credit		(10.00)				
Treasury Limit	10.00					
Total		Rs.136.13	(Rupees One Hundred And Thirty Six Crores And Thirteen Lakhs Only)			

Note: Initial rating of BWR BBB+/Stable/A2 was assigned on 21 June 2019.

Complexity Levels of the Instruments:

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Manufacturing Sector**
- **Approach to Financial Ratios**
- **Short Term Debt**

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SRG Apparels Ltd
Annexure I
Bank Loan Facilities

SI No.	Name of the bank	Facility	Long Term (Rs Crs)	Short Term (Rs Crs)	Total (Rs Crs)
1	Kotak Mahindra Bank	Working Capital	80.00	-	80.00
		Cash Credit	(10.00)	-	(10.00)
		WCDL	(10.00)	-	(10.00)
		TL	21.13	-	21.13
		EPC/PCFC	-	(45.00)	(45.00)
		FBD/FBP/FBN	-	(50.00)	(50.00)
		LC	-	(10.00)	(10.00)
		Treasury Limit	-	10.00	10.00
2	SBI	PCFC/EPC/FB N/FBD	-	25.00	25.00
Total : Rupees One Hundred And Thirty Six Crores And Thirteen Lakhs Only					136.13



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