Rating Rationale

25 May 2021

Sportking India Limited

Brickwork Ratings upgrades the ratings for the Bank Loan Facilities of ₹ 600 Crores of Sportking India Limited

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating History	
	Previous	Present		Previous	Present*
Fund Based	524.39	**511.09**	Long Term	BWR BBB (Stable)	**BWR BBB+ (Stable) Upgrade**
Non Fund Based	75.61	**88.91**	Short Term	BWR A3+	**BWR A2 Upgrade**
Total	**600.00**	**600.00**	**Rupees Six Hundred Crores Only**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

RATING ACTION / OUTLOOK

BWR has upgraded the ratings for the bank loan facilities of Sportking India Ltd. (SIL or the company), after factoring in the improvements in its profitability margins, led by strong demand in exports and high realisations in H2FY21. Despite a poor Q1FY21 performance owing to COVID-induced disruptions, the company's sales stood only marginally lower in the pandemic year of FY21 whereas its net worth improved substantially due to high accretion in the reserves. The total debt of the company reduced by ~ Rs 70 Crs, driving improvements in its leverage ratios and debt coverage metrics. SIL continues to draw benefits of being a flagship company of the vertically integrated textile group 'Sportking' which has its presence throughout the value chain viz. spinning, knitting, garmenting and retailing. SIL's large scale of operations further stabilised in the year FY21 as it commenced operations on the incremental capacity of ~68000 spindles in the end of FY19. Its diversified product portfolio, healthy capacity utilisation levels and a robust mix of domestic and export sales continues to provide strength to the ratings. The company has a strong order book and revenue visibility for the next 4-6 months.

The ratings are, however, constrained by susceptibility of the company's margins to volatility in raw material prices in the medium term. Since the company generates almost 50% of its revenues from exports, its profitability is also susceptible to the fluctuations in forex exchange rates. Further, there are inherent risks of the spinning business being commoditized, price-sensitive, competitive and exposed to the impacts of cyclicality. The ability of the company to improve its revenues and maintain its profitability in the long term will remain key rating monitorable.

OUTLOOK: STABLE

BWR believes the business risk profile of Sportking India Ltd. will be maintained over the medium term. The Stable outlook indicates a low likelihood of a rating change over the medium term. The rating outlook may be revised to Positive in case revenues and the profit show a sustained improvement. The rating outlook may be revised to Negative if revenues go down, and profit margins are lower than expected.

KEY RATING DRIVERS

Credit Strengths:

- **Improved credit risk profile:** Due to higher profitability margins and accretion of reserves in FY21, the company's Total Debt:Equity and TOL/TNW ratios improved to 1.41x & 1.89x with an increase in tangible net worth from Rs 251 Crs (FY20) to Rs 356 Crs. The company's interest coverage and debt service coverage ratios improved to 5.52x and 2.51x respectively as against 2.37x and 1.17x in FY20. The operating margins have improved from ~10% in FY20 to over 16% in FY21 primarily due to lower average raw material consumption of ~60% to sales as compared to a high of ~66% in FY20. The increase in margins is also attributed to the benefits derived from economies of scale owing to the company's increasing scale of operations. The net margins have also improved substantially from ~1% earlier to ~6.5% now as the company's depreciation and interest costs have declined by 19% and 33% respectively. The company could take advantage of interest rate arbitrage by converting its rupee term loans into fully hedged foreign currency term loans as also the low utilisation of working capital and packing credit in foreign currency (PCFC) limits leading to the reduction in interest costs. Further, SIL's Bhatinda plant (which accounts for ~76% of its installed capacity) gets a partial exemption on electricity duty, which reduces its power costs.

- **Stabilised operations for second consecutive year after the enhancement of capacity:** The company had commenced operations on its incremental capacity of ~68000 spindles (~33%) by the end of FY19. With a total installed capacity of ~2.72 lakh spindles, the company's production increased by ~23% in FY20 while the utilisation levels stabilised at 95% of total capacity in FY21. The company's revenues stood only marginally lower by ~3% in FY21 despite having to shut down its operations for a significant number of days in April 2020 due to nationwide lockdown which resulted in an approximate revenues loss of Rs 100 Crs in Q1FY21. With the existing capacity and realisation levels, the company has the ability to register a growth of ~15% over the FY21 revenues in the current financial year.

- **Diversified product mix:** SIL has a diversified product portfolio and presence in a range of value added products (i.e dyed yarns, compact/organic/contamination free cotton yarns, PC yarns, acrylic yarns). A robust mix of exports and domestic sales and a flexible cotton procurement strategy from domestic suppliers benefit the company in the form of price arbitrages and demand patterns across geographies. The diversification in a range of value added products has helped the company in mitigating the product concentration risk as it quickly adapts to the changing demand patterns by manufacturing yarns which aid company profitability margins. The company manufactures yarn of a wide count range and variety.

- **Geographically diversified client profile:** The company has diversified revenue streams coming from a variety of clients in the Indian and international markets. The exports share has remained steady at ~45-50% during the last two years while the share is expected to grow even higher in FY22 as per the current trends. The major exporting destinations are Bangladesh, China, Hongkong & Singapore. The company has a strong outstanding order book of over Rs 400 Crs executable in the next 3-4 months.

- **Long operational track record in a vertically integrated textile group:** The company commenced its operations in 1993 with an installed capacity of 6520 spindles which was expanded to the current capacity of 2.72 lakh spindles with dyeing operations in a phased manner over these years. It gradually expanded its operations to become an integrated textile player present in garment manufacturing & retails through its associate companies. The company's promoters, who have over 4 decades of industry experience, helped it build an established market position by expanding its reach to clients based in over 25 countries.

Credit Risks:

- **Susceptibility of margins to volatility in Cotton Prices:** Currently, the yarn realisations and stable cotton prices are favoring the spinners. However, most mid and small sized spinners are susceptible to adverse changes in the raw material prices due to their limited ability to completely pass on this increase to their customers. With the commoditized nature of operations, the ability of SIL to maintain its operating margins at 14-15% for a longer period will determine the sustainability of its performance.

- **Forex risks:** As exports form a significant chunk of the company's revenues, the company's profitability is impacted by adverse movements in the foreign currency liabilities/ assets outstanding as on the reporting date. The company has seen variability in operating and net margins due to fluctuating USD/INR rates in the past. Although the foreign currency term loans are completely hedged through forward contracts and the company enjoys natural hedge for its imports, being much lower than the exports; its profitability continues to remain sensitive to the volatile foreign exchange rates.

- **Inherent industry Risks:** The cotton yarn industry is characterised by cyclicality in earnings, overcapacity, intense competition and low bargaining power with suppliers and customers. The yarn industry is also sensitive to supply-side constraints as cotton is an agricultural commodity, and the overall yield of cotton is highly dependent on agro-climatic conditions in the country. Furthermore, the industry's performance is largely dependent on government regulations such as fixing the MSP for cotton, imposing or lifting barriers for international trade and competition from other exporting countries.

ANALYTICAL APPROACH

The ratings of Sportking India Ltd. have been arrived at on a standalone basis after the independent evaluation of its financial risk profile. For arriving at its ratings, Brickwork Ratings (BWR) has applied its rating methodology as detailed in the rating criteria below (hyperlinks provided at the end of this rationale)

RATING SENSITIVITIES

Upward Trigger: The ratings may be upgraded if the company sustains the growth it has registered in the operating and net margins in FY21, besides also improving its revenues as projected and considerably reducing its debt to improve the gearing ratios.
Downward Trigger: The ratings may be downgraded if the company's operating and net margins decline considerably (say an OPM of less than 9-10% and NPM of less than 1%) putting a stretch on the company's liquidity combined with other factors favoring a downgrade.

LIQUIDITY POSITION: ADEQUATE

Adequate liquidity is indicated by moderate utilisation of bank limits at ~66% for the last 9 months leaving adequate unutilised credit lines to be used in times of need. The company's internal accruals stood at Rs 137 Crs (net after adjusting for redemption of Preference Shares to the tune of Rs 21.95 Crs, otherwise bearing no effect on the overall cash flows) against the debt repayment of Rs 31 Crs during FY21, which was reduced from ~ Rs 62 Crs as the company availed moratorium facility under COVID. Due to higher expected margins even in FY22, the company's cash accruals is likely to stay more than it was in FY21, which should be sufficient to repay the maturing obligations of ~ Rs 47 Crs during the year. Further, the company does not plan for any large debt funded CAPEX as it has already undergone capacity expansion in FY19. The net working capital and current ratio of the company stood at Rs 141.13 Crs and 1.31x respectively in FY21 against Rs 51.64 Crs and 1.12x in FY20. However, the company had a low cash and cash balance of less than Rs 1 Cr and no current investments as on 31st March 2021.

ABOUT THE COMPANY

Incorporated in 1989 at Ludhiana, Punjab, SIL is promoted by Mr. Raj Kumar Avasthi. It manufactures cotton, cotton polyester blended and acrylic-blended yarn in grey and dyed forms with an installed capacity of 2,72,880 spindles. The company's manufacturing facilities are located in Ludhiana and Bathinda, Punjab. SIL is the flagship company of the Ludhiana-based Sportking Group, which is a vertically-integrated textile group with presence in varied segments ranging from spinning to garment manufacturing and retailing. The garments are retailed by Group companies under the Sportking and Mentor brands, through both exclusive and multi-brand stores.

FINANCIAL PERFORMANCE

Key Parameters	Units	2021	2020
Result Type		**Aud.**	**Aud.**
Operating Revenue	Rs in Crs	1306.24	1355.05
EBITDA	Rs in Crs	211.40	136.17
PAT	Rs in Crs	84.53	12.36
Tangible Net worth	Rs in Crs	356.88	251.86
Total Debt/Tangible Net worth	Times	1.41	2.27
Current Ratio	Times	1.31	1.12

Key Covenants of the Instrument/Facility rated: None

Non-cooperation with previous Rating Agency, if any: None

Rating History for the last three years (including withdrawn/suspended ratings) (Amounts in Rs Crs)

Facility/ Instrument	Current Rating				Rating History				
	25 May 2021				14 Aug 2020			2019	2018
Bank Loan Rating	Facility	Type	Amount	Rating	Facility	Amount	Rating	NA	NA
	FB	Long Term	524.39	BWR BBB+ (Stable)	FB	524.39	BWR BBB (Stable)		
	NFB	Short Term	75.61	BWR A2	NFB	75.61	BWR A3+		
Grand Total			**600.00**	**Rupees Six Hundred Crores Only**					

Complexity Levels of the Instruments - Simple
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com / download / ComplexityLevels.pdf. Investors' queries can be sent to info@brickworkratings.com.

Hyperlink/Reference to applicable Criteria

- [General Criteria]
- [Approach to Financial Ratios]
- [Manufacturing Companies]

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Sportking India Limited
ANNEXURE I
Details of Bank Facilities rated by BWR

Sl. No.	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Cash Credit/PCFC/EPC	238.00	-	238.00
2	EBR	-	(55.00)	-
3	EBR (Non-RMA)	-	(42.00)	-
4	SBLC	-	(39.00)	-
5	ILC/FLC/BG	-	65.00	65.00
6	Forward Derivative Limit	-	23.91	23.91
7	Term Loans (Outstanding)	229.84	-	229.84
8	COVID Emergency Credit Line	13.82	-	13.82
9	Unallocated Limits	29.43	-	29.43
TOTAL		**511.09**	**88.91**	**600.00**

Total Rupees Six Hundred Crores only.

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