Freewill Sports Private Limited

January 04, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	19.85 (Reduced from 35.21)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	3.00	CARE A2+ (A Two Plus)	Reaffirmed
Total Facilities	22.85 (Rs. Twenty-Two Crore and Eighty-Five Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

While arriving at the rating of Freewill Sports Private Limited (FSPL), CARE has taken a combined view of FSPL and Nivia Synthetics Private Limited (NSPL; rated CARE A-; Stable), together referred to as 'group', as the two entities are engaged in a similar line of business, have operational linkages, common promoters and common management personnel.

The rating assigned to the bank facilities of FSPL continues to derive strength from the experienced promoters, comfortable solvency position, strong liquidity position and healthy profitability margins of the group. The ratings further derive strength from the long track record of operations and established brand name of the group in the sports Industry.

The rating, however, is constrained by the modest scale of operations of the group and high level of competition from both organised and unorganised players in this segment.

Rating Sensitivities

Positive factors

- Substantial and sustainable growth in the operating income to ~Rs.450 Cr.
- Overall gearing ratio remaining below 0.3x on a sustained basis.
- PBILDT margins improving beyond the historical ~15-16% levels on a sustained basis.

Negative factors

- Deterioration in the solvency position with overall gearing ratio increasing beyond 0.4x owing to debt funded capex, increased working capital reliance, etc.
- Decline in scale of operations to below Rs.200 Cr. on a sustained basis.
- PBILDT margins falling consistently below 14.50%

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations with an experienced management team: FSPL and NSPL are family owned businesses, led by Mr. Rajesh Kharabanda who is acting as the Managing Director of both the entities. He has over three decades of experience in the manufacturing, trading and distribution of various sports goods and accessories. FSPL itself was originally established in 1934 while NSPL was incorporated in 1992 leading to a long track record of operations.

Established brand name in the sports industry: The group has a diversified product profile with ~35% of the gross sales in FY20 (refers to the period April 01 to March 31) derived from the sale of manufactured goods like balls, garment, bags etc. and the rest from the trading of sports shoes, basketballs, therapeutic balls, volley ball nets, skates, badminton shuttle cocks, training aids, basket balls boards, cricket tennis balls, etc. The group's operations are significantly integrated. FSPL purchases moulded balls, tennis balls, cricket balls etc. from NSPL while sports shoes and stockings are purchased from another group concern: Shoe Variants Private Limited (SVPL; CARE BBB; Stable/CAREA3+). Cost of goods purchased from these group concerns comprised ~72% of the total costs of materials for FSPL in FY20, with purchases from NSPL alone forming ~35%. NSPL in turn derived ~86% of its total income in FY20 directly from FSPL. Further ~10% of the total income of NSPL in FY20 was derived through SVPL which in turn sells to FSPL itself. Majority of the products are sold (through FSPL) under the brand name 'NIVIA' which is widely recognised in the sports Industry. The brand has a strong visual presence at traditional retail counters, organized retail outlets and organized e-commerce markets. FSPL manufactures balls approved by Federation Internationale De Football Association (FIFA), All India Football Federation, Volleyball Federation of India and Basketball Federation of India etc. The company has been an official equipment sponsor for several major tournaments like Indian Super League, Football Championship League, BRICS Football tournament etc. This has led to further brand visibility.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Healthy profitability margins and comfortable solvency position: The profitability margins viz. PBILDT and PAT margins remained healthy at 14.55% and 7.52% respectively, in FY20. The same, however, declined slightly from 15.50% and 8.25% respectively, in FY19, on account of increased expenses incurred towards the process improvement measures as well as limited ability to pass on costs in a sluggish overall economic scenario. The PBILDT and PAT margins however improved to 17.81% and 9.10% respectively, in 8MFY21 (Provisional) from 14.98% and 7.78% respectively, in 8MFY20 (Provisional) on account of cost rationalization measures undertaken during the period.
The long term debt to equity ratio and overall gearing ratio stood comfortable at 0.10x and 0.13x respectively, as on March 31, 2020, improving slightly from 0.12x and 0.18x respectively, as on March 31, 2019 owing to accretion of profits to the net worth and lower working capital borrowings outstanding. The interest coverage ratio and total debt to GCA ratio also remained comfortable at 20.71x in FY20 and 0.67x as on March 31, 2020 (Prov.) respectively as compared to 20.74x in FY19 and 0.74x as on March 31, 2019 respectively. The capital structure, as on November 30, 2020, further remained comfortable with the long term debt to equity ratio and overall gearing ratio of 0.09x and 0.10x respectively (PY: both at 0.11x). The interest coverage ratio also remained comfortable at 22.53x, in 8MFY21 (Prov.; PY: 21.04x).

Strong liquidity position: The current ratio and the quick ratio of the group remained comfortable at 2.51x and 1.70x respectively, as on March 31, 2020 improving from 2.19x and 1.49x respectively, as on March 31, 2019. The group had free cash and bank balances of Rs.2.08 Cr., as on March 31, 2020. The operating cycle of the group elongated to ~120 days, as on March 31, 2019 from ~102 days, as on March 31, 2019. This was owing to the lockdown imposed at the end of March-2020 in light of Covid-19 which led to increased accumulation of stock as well as debtors. The average utilization of the fund based working capital limits remained comfortable at ~29% for NSPL and at ~3% for FSPL in the twelve month period ended November-2020. The group has a modest repayment obligation of Rs.2.24 Cr. in FY21 which is to be completely met through its cash accruals. The group has planned a regular capex of around Rs.2.90 Cr. for FY21 to be funded through already tied up term loans of Rs.2.61 Cr. and internal accruals generated. Additionally, a total capex of Rs.12.2 Cr. is projected in FY22 pertaining to regular modernization and addition of capacities for some products. This is to be funded through term loans of Rs.8 Cr. (yet to be applied for) and the internal accruals generated. For the additional debt proposed, the group has ample headroom as its overall gearing ratio stands at a comfortable level, as on March 31, 2020. FSPL had not availed the moratorium offered by RBI in light of Covid-19 while NSPL's interest obligations were automatically deferred by the bank for the April-2020 to August-2020 period.

Key rating weaknesses
Modest scale of operations: The group has reported a modest total income of Rs.230.79 Cr. in FY20 which remained almost flat as compared to FY19. The group had to temporarily shut down its manufacturing units from March 23, 2020 as per the government mandated nationwide lockdown. The operations at FSPL and NSPL started subsequently from May 15, 2020 and May 08, 2020, respectively. With around ~6.5 months of operations (as for ~1.5 months the operations remained suspended due to lockdown), the group has witnessed a ~26% decline in total income in 8MFY21 (Prov.) to Rs.109.86 Cr.

Highly competitive nature of the industry: The group operates in a highly fragmented industry with minimal entry barriers while the demand for sports and fitness products is spread across numerous organized and unorganized players in domestic as-well-as the international market.

Analytical approach– Combined. The financial and business risk profiles of FSPL and NSPL have been combined since both the entities are engaged in a similar line of business, have operational linkages, common promoters and common management personnel.

Applicable Criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
Financial ratios – Non-Financial Sector
CARE's policy on default recognition
CARE's methodology for manufacturing companies
Liquidity analysis of non-financial sector entities
Criteria for Short Term Instruments
Rating Methodology: Notching by factoring linkages in Ratings

About the company (FSPL)
FSPL was originally established in 1934 by Mr. Nihalchand Kharabanda (father of Late Mr. Vijay Kharabanda) as a proprietorship concern named Freewill & Company. It was subsequently converted into a partnership firm in 1965–66 with Late Mr. Vijay Kumar Kharabanda and Mr. Nihalchand Kharabanda as the partners. The firm was again reconstituted as Freewill Sports Private limited in 1984. FSPL, along with its group concerns: SVPL, NSPL Limited etc. is engaged in the

manufacturing, trading and distribution of various sports goods and accessories at its manufacturing facilities in Jalandhar, Punjab. Around 98% of the products manufactured by the company are sold under the brand name 'NIVIA'. Moreover, FSPL is one of the leading Indian manufacturers of ball sports equipment, footwear & accessories. FSPL's marketing network comprises of ~1,500 dealers across India.

Brief Financials (in Rs. Crore) NSPL	FY19 (A)	FY20 (A)
Total operating income	227.44	223.25
PBILDT	27.92	25.27
PAT	16.47	14.89
Overall gearing (times)	0.05	0.04
Interest coverage (times)	44.44	46.68

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	3.35	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	16.50	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	3.00	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	3.35	CARE A; Stable	1)CARE A; Stable (07-Apr-20)	1)CARE A; Stable (31-Dec-19)	1)CARE A; Stable (29-Mar-19)	1)CARE A; Stable (20-Mar-18) 2)CARE A-; Stable (03-May-17)
2.	Fund-based - LT-Cash Credit	LT	16.50	CARE A; Stable	1)CARE A; Stable (07-Apr-20)	1)CARE A; Stable (31-Dec-19)	1)CARE A; Stable (29-Mar-19)	1)CARE A; Stable (20-Mar-18) 2)CARE A-; Stable (03-May-17)
3.	Non-fund-based - ST-BG/LC	ST	3.00	CARE A2+	1)CARE A2+ (07-Apr-20)	1)CARE A2+ (31-Dec-19)	1)CARE A2+ (29-Mar-19)	1)CARE A2+ (20-Mar-18) 2)CARE A2+ (03-May-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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