

Suditi Industries Limited
September 07, 2021

Ratings

Facilities / Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	27.00	CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE BB-; Stable; (Double B Minus; Outlook: Stable)
Short Term Bank Facilities	1.00	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category
Total Bank Facilities	28.00 (Rs. Twenty-Eight Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated October 07, 2020, placed the rating(s) of Suditi Industries Limited (SIL) under the 'issuer non-cooperating' category as SIL had failed to provide information for monitoring of the rating for the rating exercise as agreed to in its Rating Agreement. SIL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter/email dated August 23, 2021 and September 03, 2021 among others. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings have been revised on account of non-cooperation by SIL and CARE's efforts to undertake a review of the ratings outstanding. CARE views information availability risk as a key factor in its assessment of credit risk.

Detailed description of the key rating drivers

At the time of last rating on October 07, 2020, the following were the rating strengths and weaknesses (updated for the information available from Bombay Stock Exchange):

Key Rating Weaknesses

Decline in scale of operation: The scale of operations of SIL stood modest however the total operating income (TOI) has declined by 47.40% and stood at Rs. 50.65 crore in FY21 vis-à-vis Rs. 96.29 crore in FY20. During Q4FY21, SIL's total operating income (TOI) has registered q-o-q decline by 6.69% over Q3FY21 wherein TOI stood at Rs. 17.71 crore in Q4FY21 as against Rs. 18.98 crore in Q3FY21. The said decline was primarily backed by lower orders received from the customers during the quarter on the back of COVID-19 situation aroused in the country. Given the decline in TOI and losses incurred by the company in operating and net level, the tangible net-worth base also declined and stood at Rs.26.75 crore in FY21 vis-à-vis Rs. 41.92 crore in FY20, thereby limiting the financial flexibility of the company to that extent. SIL has achieved TOI of Rs. 18.60 crore in Q1FY22 vis-à-vis TOI of Rs. 17.71 crore in Q4FY21 reflecting q-o-q growth of 5.03%.

Operating and net losses reported: During Q4FY21, the company has reported operating loss of Rs. 5.64 crore vis-à-vis operating profit of Rs. 0.85 crore in Q3FY21. Further, the company has reported operating loss of Rs. 8.96 crore in FY21 as against operating profit of Rs. 6.17 crore in FY20. Furthermore, the company has reported net loss of Rs. 7.33 crore in Q4FY21 as against net loss of Rs. 0.49 crore in Q3FY21. In FY21, the company has reported heavy net loss of Rs. 15.18 crore as compared to PAT of Rs. 0.33 crore in FY20. The decline in TOI along with losses incurred can be attributed to nationwide lockdown imposed by the government in the view of COVID-19 pandemic in the month of March 2020 and since thereon in FY21, the company has been facing the harsh effects of the lockdown imposed and loss of revenue led by poor order strength on the back of decreased demand from customers. However, despite reporting net losses, the net losses have reduced

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

*Issuer did not cooperate; Based on best available information

significantly and stood at Rs. 0.32 crore in Q1FY22 vis-à-vis net loss of Rs. 7.33 crore in Q4FY21. The company has achieved operating profits in Q1FY22 vis-à-vis operating loss of Rs. 5.64 crore in Q4FY21.

Moderate capital structure: The capital structure of SIL stood moderate with the overall gearing stood at 1.48 times as on March 31, 2021 vis-à-vis 0.83 times as on March 31, 2020. The same has deteriorated given the increase in the reliance on debt funds during the year along with the decline in net worth base on account of losses reported by the company.

Weak debt coverage indicators: On account of significant decrease in the profitability and increase in dependence on debt funds and thereby interest cost, the debt coverage indicators have deteriorated on y-o-y basis and the same stood weak in FY21 marked by below unity interest coverage ratio and weak total debt to gross cash accruals.

Working capital intensive nature of operations marked by high inventory holding & collection coupled with high reliance on fund-based limits: The operations of SIL are highly working capital intensive in nature with majority of funds for over 110-136 days blocked in inventory, given the long production cycle. Moreover, funds for over 85-158 days are blocked in debtors, given the credit period required to be extended to the reputed customers in the textile & retail market. Given this, the operating cycle remained stretched.

Competitive & fragmented nature of operations albeit mitigated by licensing agreements in place: SIL operates in a highly competitive & fragmented industry wherein a large no. of organized and unorganized players in the textile manufacturing segment, operate in the given environment. Moreover, since the majority of the operations of the company comprise fabrics processing, the company faces stiff competition from the other small & medium players belonging to the textile processing segment. On the other hand, there are numerous apparel brands catering to the men & women casual wear segment, thereby intensifying the competition for the company.

Key Rating Strengths

Long track record of vertically integrated operations with diverse business mix: SIL has a long track record of over two and half decades years of operations in processing of fabrics and manufacturing & retailing of RMG & apparels. The licensed brands segment includes manufacturing of licensed clothing line consisting of fashion apparels for men, including T-shirts, sweatshirts, polos, jackets, track pants, boxers, etc. for various international clubs. Moreover, the own brand segment includes casual fashion wear for men and women, including denims, bottoms, jackets, shirts, skirts, dresses, cardigans, tunics, coupled with accessories like belts, bags and flip flops, which are marketed under the brand "Riot". On the other hand, the large retailers' segment includes casual wear, sportswear and active wear for men, women and kids, which are catered to large retailers under their brand names. The operations of the company offer backward integration for the garmenting section, since the fabric processing is carried out in-house, given the established setup of the processing unit.

Highly experienced promoters and strong group presence: The overall operations of SIL are looked after by Mr. Pawan Agarwal, Chairman & MD, who possesses an extensive experience of over three decades in the textile processing & manufacturing operations, majorly gained by way of this company. Prior to the incorporation of SIL, he with his father and brothers was associated with various companies in the RPK Group, the already established group with more than three decades of operations in the textiles business.

Established market presence with diverse marketing network and renowned brand image: SIL has a wide marketing network for selling its RMG & apparels. The products under "Riot" along with licensed brands are sold through 150 Multi Brand Outlets (MBOs) and Large Format Stores (LFSs) spread across 15 states in India, including Shoppers Stop, Pantaloons, Lifestyle, Walmart, Central, etc., coupled with major online platforms (including owned ones) viz. Myntra, Amazon, Flipkart, Jabong, Snapdeal, Riot and Indianink. On the other hand, the company possesses reputed set of customer base for its fabric processing and large retailers' segment.

Licensing rights in place for FC Barcelona, Manchester City FC, MTV and Yuvraj Singh's brand: SIL has acquired licensing rights from leading football clubs and entertainment company to manufacture & merchandise licensed clothing line consisting of fashion apparels for men, using their brand logo on the said clothing in order to attract the youth fan-base interested in football and entertainment. The said agreements with these clubs are valid for a period of about 3 years, renewable thereafter at the will of the clubs. SIL has licentiate agreement with sports clubs/association like YouWeCan, NBA Properties-USA and PSG-Paris, to manufacture & merchandise a licensed clothing line that will include lifestyle & fashion apparel for men, women and kids.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[CARE's Policy on Default Recognition](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Rating Methodology – Manufacturing Companies](#)

[Rating Methodology – Cotton Textile Manufacturing](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Incorporated in 1991 by Mr. Pawan Agarwal, SIL (erstwhile Suditi Hosiery Processors Limited, changed name to Suditi Industries Limited (SIL) in October 1994) is engaged in processing of fabrics and manufacturing & retailing of RMG & apparels. SIL derives majority of revenues from processing of fabrics comprising local sales as well as on job-work basis. It also manufactures casual wear, sportswear and active wear for men, women and kids, which are catered to large retailers under their brand names. On the other hand, it outsources the manufacturing of casual fashion wear for men and women, which is marketed under its own brand "Riot". Moreover, it also outsources the manufacturing of licensed clothing line consisting of fashion apparels for men, for various international clubs, using their brand logo on the said clothing. Moreover, in March 2015, it incorporated a subsidiary named Suditi Design Studio Limited (SDSL) engaged in manufacturing & retailing of women ethnic & fusion wear under its own brand "Indianink" which is marketed through LFSs, own online portal as well as other online stores. Furthermore, the products under its own brand and licensed brands are available in various outlets all over India, as well as at various online shopping platforms. The processing unit of the company is located at Turbhe in Navi Mumbai, possessing an installed capacity of 4,050 MTPA. On the other hand, its RMG & apparels manufacturing facility located at the same place comprises an installed capacity of 12 lakh pieces per annum comprises of manufacturing of RMG & apparels for large retailers' brands. On the other hand, it procures yarn or grey cloth, dyes and chemicals from local suppliers of the same.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	Q1FY22 (UA)
Total operating income	96.29	50.65	18.60
PBILDT	6.17	-8.96	1.22
PAT	0.03	-15.18	-0.32
Overall gearing (times)	0.83	1.48	-
Interest coverage (times)	1.59	-1.94	1.08

A: Audited; UA: Unaudited

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: 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-Cash Credit	-	-	-	27.00	CARE B+; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Letter of credit	-	-	-	1.00	CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (03-Oct-18)
2.	Fund-based - LT-Cash Credit	LT	27.00	CARE B+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (07-Oct-20)	1)CARE BB+; Stable (22-Nov-19) 2)CARE BBB-; Negative (09-Oct-19)	1)CARE BBB-; Stable (03-Oct-18)
3.	Non-fund-based - ST-Letter of credit	ST	1.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4; ISSUER NOT COOPERATING* (07-Oct-20)	1)CARE A4+ (22-Nov-19) 2)CARE A3 (09-Oct-19)	1)CARE A3 (03-Oct-18)

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Transaction limit	In the event of non creation of security within stipulated timelines, penal interest of 1% pa (for fund based facilities) on the outstanding amount of fund based credit facilities will be applicable for the period of default. For non fund based facilities, additional commission at 0.50% pa on the outstanding amount will be applicable.
B. Non-financial covenants	
1. Stock Audit	The borrower shall permit the bank to inspect the borrower's premises, assets, documents in the possession of the borrower and inter alia conduct forensic audit and stock audit at such intervals as decided by the bank (and in any event at a minimum of once in 12 months) by the officers of the bank or external experts appointed for the purpose.

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.	Non-fund-based - ST-Letter of credit	Simple

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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