

Freewill Sports Private Limited

March 29, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	36.48 (enhanced from 20.68)	CARE A; Stable (Single A; Outlook:Stable)	Reaffirmed
Short-term Bank Facilities	3.00	CARE A2+ (A Two Plus)	Reaffirmed
Total Facilities	39.48 (Rupees thirty nine crores and forty eight lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Freewill Sports Private Limited (FSPL) continue to derive strength from the experienced promoters, comfortable solvency and liquidity position and healthy profitability margins. The ratings further derive strength from the long track record of operations and established brand name in the sports Industry.

The ratings, however, are constrained by the moderate scale of operations and high level of competition.

Going forward, the ability of the company to profitably scale-up its operations while maintaining its comfortable liquidity position will remain the key rating sensitivities. Furthermore, timely completion of the on-going capex within the cost estimates along with any new capex and funding mix for the same impacting the credit profile will also remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Healthy profitability margins and comfortable solvency position: The PBILDT margins, remained healthy and broadly on previous year's levels at 14.37% in FY18 (refers to the period April 01 to March 31) as compared to 14.45% in FY17. The PAT margins, improved further to 8% in FY18 from 7.38% in FY17. The capital structure of the company remained comfortable with the overall gearing ratio improving considerably as on March 31, 2018, on account of scheduled term loan repayments, repayment of unsecured loans and accretion of profits to the networth. The debt coverage indicators also remained comfortable with the total debt to GCA at 0.21x as on March 31, 2018 improving from 0.57x as on March 31, 2017 on account of lower debt outstanding. The interest coverage ratio also remained comfortable improving from previous year's levels in FY18 on account of lower interest expenses.

In 9MFY19 (Prov.) also the PBILDT and PAT margins remained healthy at 14.12% and 9.22% respectively, in 9MFY19 (Provisional) as compared to 12.70% and 6.81% respectively, in 9MFY18 (Prov.). The capital structure of the company also remained comfortable with long term debt to equity ratio and overall gearing ratio at 0.02x and 0.09x respectively, as on December 31, 2018. The interest coverage ratio also remained comfortable, improving from 40x in 9MFY18 (Prov.) to 59.65x in 9MFY19 (Prov.) owing to lower interest expenses.

The company is planning to undertake a project to enhance its manufacturing capacities for sports-wear, sports bags etc. The company plans to acquire a manufacturing unit adjacent to its existing one and install additional machinery at the same. The total cost of the project is estimated to be Rs.22.80 Cr. to be funded through term loans of Rs.18.24 Cr. (already sanctioned) and remaining through internal accruals generated. A part of the operations at the new premises are expected to begin by September-2019 while the complete project is expected to commission by December-2019. *Completion of the same within the time and cost estimates will remain a key rating sensitivity.*

Long track record of operations with an experienced management team: FSPL is a family owned business, led by Mr. Rajesh Kharabanda who is acting as the Chairman & Managing Director of the company. 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 leading to a long track record of operations.

Established brand name in the sports industry: FSPL has a diversified product profile with ~38% of the gross sales in FY18 derived from the sale of manufactured goods like balls, garment, bags etc. and the rest from trading of sports shoes, basketballs, therapeutic balls, volley ball nets, skates, badminton shuttle cocks, training aids, basket balls boards, cricket tennis balls, etc. Majority of the products are sold 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-

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

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. The company has been an official equipment sponsor for several major tournaments like Indian Soccer League, Football Championship League, BRICS Football tournament etc. This has led to further brand visibility.

Comfortable liquidity position: Average utilization of the working capital limits remained at a comfortable ~9% for the twelve month period ended December-2018. The operating cycle of the company remained moderate though elongating from previous year's levels to ~87 days as on March 31, 2018 from ~78 days as on March 31, 2017 on account of the stretched collection period. The company has a loan repayment of ~Rs.1.4 Cr. in FY19 and ~Rs.2.8 Cr. in FY20 which is proposed to be met through internal accruals generated. The current ratio and the quick ratio of the company remained comfortable at 2.11x and 1.56x respectively, as on March 31, 2018 improving from 1.84x and 1.42x respectively, as on March 31, 2017

Key rating weaknesses

Moderate scale of operations: The scale of operations of the company remained moderate marked by a total income of Rs.174.66 Cr. in FY18. The same remained flat during the year owing to lower demand in few months around the implementation of the goods and service tax (GST) regime. The scale of operations grew by ~34% during 9MFY19 (Prov.) on account of a pick-up in domestic demand and increased online sales while new variants of existing products have also been added to the product profile. The same, however, continued to remain moderate with a total income of Rs.168.99 Cr. in 9MFY19 (Prov.).

Highly competitive nature of the industry: FSPL's 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 international market.

Analytical approach— Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[CARE's methodology for manufacturing companies](#)

[CARE's policy on default recognition](#)

[Criteria for short-term instruments](#)

About the company

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: Shoe Variants Private Limited, Nivia Synthetics Private 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 (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	174.23	174.66
PBILD	25.17	25.11
PAT	12.86	13.97
Overall gearing (times)	0.15	0.05
Interest coverage (times)	14.69	48.39

Status of non-cooperation with previous CRA: ACUITE has suspended its rating vide PR dated January 13, 2016 on account of non-cooperation by FSPL with ACUITE's efforts to undertake a review of the outstanding ratings.

Any other information: Not applicable

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

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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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	-	-	March-2024	19.98	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	19.98	CARE A; Stable	-	1)CARE A; Stable (20-Mar-18) 2)CARE A-; Stable (03-May-17)	1)CARE A- (11-Apr-16)	-
2.	Fund-based - LT-Cash Credit	LT	16.50	CARE A; Stable	-	1)CARE A; Stable (20-Mar-18) 2)CARE A-; Stable (03-May-17)	1)CARE A- (11-Apr-16)	-
3.	Non-fund-based - ST-BG/LC	ST	3.00	CARE A2+	-	1)CARE A2+ (20-Mar-18) 2)CARE A2+ (03-May-17)	1)CARE A2+ (11-Apr-16)	-

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