Freewill Sports Private Limited

April 07, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings**[1]	**Rating Action**
Long-term Bank Facilities	35.21	**CARE A; Stable (Single A; Outlook:Stable)**	Reaffirmed
Short-term Bank Facilities	3.00	**CARE A2+ (A Two Plus)**	Reaffirmed
Total Facilities	**38.21 (Rupees thirty eight crores and twenty one 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 (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. Earlier, the ratings to FSPL were assigned on stand-alone basis.

The ratings assigned to the bank facilities of FSPL group 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 in the sports Industry.

The ratings, however, are 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 while improving the overall gearing ratio to below 0.2x
- PBILDT margins improving significantly beyond the historical ~15-16% levels

Negative Factors

- Any substantial deterioration in the credit profile in light of the Covid-19 outbreak
- Deterioration in the solvency position with overall gearing ratio deteriorating beyond 0.7x.
- PBILDT margins falling consistently below ~14%

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 ~37% of the gross sales in FY19 (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 ~69% of the total costs of materials for FSPL in FY19 with NSPL alone forming ~34%. NSPL in turn derived ~89% of its total income in FY19 directly from FSPL. Further ~8% of the total income of NSPL in FY19 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. The

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

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.

Healthy profitability margins and comfortable solvency position: The PBILDT and PAT margins of the group remained healthy at 15.10% and 8.25% respectively, in FY19. The same, however, declined from 16.93% and 9.01% respectively, in FY18 owing to increased expenses incurred towards strengthening of the sales & marketing team, advertising etc. The PBILDT margins had remained flat in FY18 owing to the impact of goods and service tax implementation in first half of the year where retail demand was sluggish. The PAT margins had improved in FY18 from 8.02% in FY17 on the back of lower interest and depreciation expenses. The PBILDT margins remained healthy at 15.49% during 8MFY20 (Provisional) but declined from 17.52% during 8MFY19 (Prov.). This was mainly because the group incurred additional expenses on marketing, sponsorship of sports events etc. Further, the group was also not being able to pass on costs completely to its customers in the overall demand slowdown scenario prevailing.
The capital structure of the group has remained comfortable and broadly at the same level during the FY17-FY19 period with the long term debt to equity ratio and overall gearing ratio at 0.12x and 0.18x respectively, as on March 31, 2019. The debt coverage indicators also remained comfortable with the total debt to GCA at 0.74x as on March 31, 2019 and the interest coverage ratio at 20.74x in FY19. The same have remained fluctuating in the past but continue to remain at a comfortable level. The interest coverage ratio further remained comfortable at 22.40x in 8MFY20 (Prov.) though deteriorating from 28.62x in 8MFY19 (Prov.), owing to the lower profitability.

Strong liquidity position: The current ratio and the quick ratio of the group remained comfortable at 2.19x and 1.49x respectively, as on March 31, 2019 as compared to 2.07x and 1.48x respectively, as on March 31, 2018. The group had free cash and bank balances of Rs.1.65 Cr., as on March 31, 2019. The operating cycle of the group remained moderate and almost at previous year's levels at ~101 days as on March 31, 2019 as compared to ~104 days as on March 31, 2018. The average utilization of the fund based working capital limits for FSPL remained at a comfortable ~13% for the twelve month period ended November-2019. The group had a modest repayment obligation of Rs.2.47 Cr. in FY20 which was completely met through its cash accruals. For FY21, the group has projected a total capex of around Rs.12.8 Cr. to be funded out of the term loan and internal accruals. The capex includes addition of manufacturing capacities for bags, garments etc. in FSPL and regular addition/replacement capex in NSPL. For the capacity enhancement capex at FSPL, acquisition of a new unit and allied construction had already been undertaken in FY19 and FY20. The remaining capex will be undertaken depending on the economic scenario. Going forward, the impact of the Covid-19 pandemic on the liquidity or financial and operational performance of the group will remain a key rating sensitivity.

Key rating weaknesses

Modest scale of operations: In FY19, the scale of operations of the group remained modest at Rs.233.41 Cr. The same, however, grew by ~14% from the previous year on the back of better demand in absence of any disruption like implementation of the Goods and Service Tax regime in FY18. This was supported by various marketing initiatives undertaken. In 8MFY20 (Provisional) also the total income remained at a modest level of Rs.153.30 Cr., which was broadly on 8MFY19 (Provisional) levels of Rs.151.94 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 profile 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. The ratings for FSPL were earlier assigned on a stand-alone basis.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
CARE's methodology for Short Term Instruments
Rating Methodology: Consolidation and 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.

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

Brief Financials (in Rs. Crore) FSPL	FY18 (A)	FY19 (A)
Total operating income	174.66	227.44
PBILDT	25.11	27.92
PAT	13.97	16.47
Overall gearing (times)	0.05	0.05
Interest coverage (times)	48.39	44.44

A: Audited

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

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	-	-	April-2024	18.71	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	18.71	CARE A; Stable	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)	1)CARE A- (11-Apr-16)
2.	Fund-based - LT-Cash Credit	LT	16.50	CARE A; Stable	1)CARE A; Stable (31-Dec-19)	1)CARE A; Stable (29-Mar-19)	1)CARE A; Stable (20-Mar-18) 2)CARE A-;	1)CARE A- (11-Apr-16)

							Stable (03-May-17)	
3.	Non-fund-based - ST-BG/LC	ST	3.00	CARE A2+	1)CARE A2+ (31-Dec-19)	1)CARE A2+ (29-Mar-19)	1)CARE A2+ (20-Mar-18) 2)CARE A2+ (03-May-17)	1)CARE A2+ (11-Apr-16)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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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About CARE Ratings:

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