

Freewill Sports Private Limited

December 31, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	35.21 (reduced from 36.48)	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

The ratings assigned to the bank facilities of Freewill Sports Private Limited (FSPL) continue to derive strength from the experienced promoters, comfortable solvency position, strong 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 modest scale of operations 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 maintaining the solvency position viz. an overall gearing ratio below 0.2x and PBILDT margins improving significantly beyond the historical ~14-15% levels

Negative Factors

- Deterioration in the solvency position with overall gearing ratio deteriorating beyond 0.5x.
- PBILDT margins falling consistently below ~10-11%

Detailed description of the key rating drivers

Key Rating Strengths

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 FY19 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-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 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 company remained healthy at 12.28% and 7.24% respectively, in FY19 (refers to the period April 01 to March 31). The same, however, declined from 14.37% and 8% respectively, in FY18 owing to increased expenses incurred towards strengthening of the sales & marketing team, advertising etc. The PBILDT margins also remained healthy at 12.17% during 8MFY20 (Provisional) but declined from 14.39% during 8MFY19 (Provisional). This is mainly because the company has incurred additional expenses on marketing, sponsorship of sports events etc. Further, the company 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 company remained comfortable with long term debt to equity ratio and overall gearing ratio at previous year's levels in FY19. The debt coverage indicators also remained comfortable with the total debt to GCA at last year's levels of 0.21x as on March 31, 2019. The interest coverage ratio stood comfortable in FY19 though deteriorating from FY18 on account of slightly higher interest expenses. The

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

interest coverage ratio further remained comfortable at 53.21x in 8MFY20 (Provisional) though deteriorating from 67.41x in 8MFY19 (Provisional) owing to the lower profitability.

Strong liquidity position: The average utilization of the fund based working capital limits remained at a comfortable ~13% for the twelve month period ended November-2019. The current ratio and the quick ratio of the company also remained comfortable at 2.27x and 1.59x respectively, as on March 31, 2019 as compared to 2.11x and 1.56x respectively, as on March 31, 2018. The company had free cash and bank balances of Rs.1.63 Cr. as on March 31, 2019. The operating cycle of the company remained moderate and almost at previous year's levels at ~85 days as on March 31, 2019 as compared to ~87 days as on March 31, 2018. The company has a modest repayment obligation of Rs.1.67 Cr. in FY20 which is expected to be comfortably met through its cash accruals.

The company had planned to undertake a project to enhance its manufacturing capacities for sports-wear, sports-bags etc. by acquiring a unit adjacent to its existing one and installing additional machinery at the same. This unit has already been acquired and post the planned construction, a part of the existing manufacturing of sportswear, bags etc. has also been shifted there. However, the capacity enhancement part of the capex is now to be completed by FY21 depending on the economic scenario with the total cost and funding mix expected to remain in line with the initial estimates. For FY20, the company has projected a total capex of Rs.8 Cr. to be funded through term loans of Rs.5.04 Cr. (Rs.2.04 Cr. availed and remaining to be tied up) and remaining through the internal accruals generated.

Key rating weaknesses

Modest scale of operations: In FY19, the scale of operations of the company remained modest at Rs.227.44 Cr. The same, however, grew by ~30% 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 by the company. In 8MFY20 (Provisional) also the total income remained at a modest level of Rs.148.60 Cr. in which was broadly on 8MFY19 (Provisional) levels.

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 the international market.

Analytical approach– Standalone

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](#)

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.

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

Brief Financials (in Rs. crore)	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: Not Applicable

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 (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 (29-Mar-19)	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+ (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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