SPL Industries Limited

August 16, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	3.16	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Assigned**
Short-term Bank Facilities	10.00	**CARE A3 (A Three)**	**Assigned**
Total Facilities	**13.16 (Rs. Thirteen crore and sixteen lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of SPL Industries Limited (SPLIL) factors in the experience and resourceful promoters coupled with long track record of operations in the industry, improved operational performance of the company and comfortable capital structure marked by low overall gearing. The rating strengths are partially off-set by low profitability margins of the company in FY17, working capital intensive nature of operations. The ratings are also negatively impacted by client concentration risk and vulnerability of company to exchange rate fluctuations.

Going forward, the ability of the company to improve its scale of operations as well as profitability awhile maintaining its capital structure will remain the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters with long track record of operations: SPLIL incorporated in 1991 became a part of SPL group in 2013. The group is promoted by Mr. Vijay Jindal who has more than 2 decade of experience in the apparel industry. Further, the chairman and managing director of the company Mr. Mukesh Aggarwal; who has been associated with the company since its inception has approximately 22 years of expertise in this field. The promoters are also assisted by a team of qualified professionals having vast experience in the same line of business. The group provides explicit support to SPLIL through unsecured loans from promoters and liberal credit terms from group company Shivalik Prints Limited in order to meet any liquidity mismatch.

Improved operational performance marked by higher capacity utilization: Post the takeover by SPL group; the management commenced the process of company's revival and has done a capital expenditure of around Rs. 12 cr over the past two years to increase the installed capacity of garmenting division to 60 lakh pcs per annum in FY17 as against 2.5 lakh pcs per annum in FY15 in order to meet higher demand in future. Further, with increase in installed capacity, the utilization levels have also increased from 89% in FY16 to 99% in FY17 indicating improved operating performance. SPLIL sold approximately 23% additional units during FY17.

Comfortable capital structure with low overall gearing: The debt profile of the firm is marked by working capital borrowings and term loan availed for capital expenditure. The average fund-based limits utilization remained moderate at 52.98% during the period Nov-16 to Jun-17 as the company majorly relies on funds received from group companies to bridge the liquidity gap. The overall gearing ratio improved to 0.41x as on March 31, 2017 as against 0.50x as on March 31, 2016 on account of low working capital utilizations and repayment of unsecured loans. However, the other debt coverage indicators marked by interest coverage and total debt to gross cash accrual though deteriorated but stood moderate at 2.14x (PY:11.04x) and 4.55x (PY:1.53x) respectively as on March 31, 2017. The interest coverage ratio and TDGCA deteriorated majorly on accounts of lower profitability in FY17.

Key Rating Weaknesses

Customer Concentration Risk: SPLIL exports its products to various international retail chains and super stores, predominantly in USA, Europe, Canada and Japan. The majority of sales are driven by few clients with top 10 clients

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

constituting over 88% of the total sales in FY17 indicating high client concentration risk. The top 2 client constituted 35% of the total sales made in FY17. However, the company has established strong relationships with its clients over the years which mitigate this risk to a large extent.

Low profitability margin: The total operating income of the company grew at a CAGR of 60% from Rs. 60.24 cr in FY15 to Rs. 154.55 crore in FY17 majorly on account of increased sales in terms of volume. However, the company achieved a marginal growth rate of 2.77% y-o-y in FY17 over FY16 on account of overall subdued demand particularly from USA; from where the company derives majority of its export revenue. Further, the PBILDT and PAT Margins of the company deteriorated to 3.97% (PY: 8.95%) and 0.21% (PY: 5.87%) majorly on account of increased employee expenses. During, FY16 and FY17 SPLIL has done a capital expenditure to enhance its installed capacity. . Further, in order to meet higher demand in future, the company had to hire additional employees at a higher cost. This, combined with increased minimum wages for workers in November 2015 led to increased employee expenses in FY17.

Since the company is in the growth stage of its business cycle; in order to penetrate into international markets and gain clients it had to offer competitive prices and thus was not able to pass on the burden of increased cost to its customers. This affected the overall profitability of the company in FY17.

Foreign Exchange Fluctuation Risk: The firm is predominantly export oriented with total export accounting for 72% of the total production in FY17. Though, SPLIL hedges around 60% of its exports receivable through forward contracts still around 40% remains unhedged, exposing it to appreciation in the value of rupee against foreign currency which may impact its cash accruals. Indian currency appreciated by 5 % during FY17. This constrains the price competitiveness of the Indian textile exporters. SPLIL was also faced the adverse impact of rupee appreciation as reflected from the fact that the company registered an overall growth in terms of volume of 23% in FY17 over FY16. However, the turnover of the company grew by just 2.77% during FY17.

Working capital intensive nature of operations: The company's operation is working capital intensive as evidenced in working capital cycle of 60 days in FY17 (57 days in FY16) primarily owing to high collection period. The average collection period has increased from 60 days in FY16 to 84 days in FY17. The company has to offer reasonable credit period to its customers as majority of them are large size players which possess high bargaining power compared to SPLIL which results in liberal credit period to its customer.

Further, SPLIL has average inventory holding period of 37 days (PY:19) during FY17 due to processing time involved on account of extensive production process of the company to manufacture high quality apparels as per the design and specification of the clients.

Moreover, the creditor days have also increased in FY17 to 61 days (PY: 22 days) majorly on account of credit availed from group company Shivalik Prints Ltd.

Fragmented and competitive nature of the garment industry: The readymade garment industry is highly fragmented and is characterized by low entry barriers as it is the least capital intensive part of the textiles value chain. The Indian textiles industry, currently estimated at around US$ 120 billion, is expected to reach US$ 230 billion by 2020. The growth would primarily be driven by the increasing shift of the apparel industry from the developed western nations (traditional exporting destinations) to the other non-traditional markets. Currently, India's exports are mainly directed to the traditional markets – US and EU and now, with these regions turning into matured markets, the growth in apparel imports is expected to slow down. The Indian textiles industry is currently facing challenges in the form of currency risk, increasing competition from China on unfavorable currency and higher raw material costs. However, India is well poised to gain from long-term growth in the global home textiles market, as it leverages the twin benefits of lower cost of production and significant share of global installed capacity.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

About the Company

SPL Industries Limited (SPLIL) was incorporated as Shivalik Prints Private Limited in 1991, with the main objective of carrying on the business of manufacturing and export of apparel. The name of the company was changed to SPL Industries Limited in 1994. SPLIL is listed on BSE in and NSE since July 2005. In March 2013 the business was taken over by the current management of SPLIL from its erstwhile management. The group is promoted by Mr. Vijay Jindal. Mr. Jindal has more than 2 decades of experience in the apparel industry. The company has 2 manufacturing facilities situated in Faridabad, Haryana and has a total production capacity of 60 lakh pieces per annum. Apart from this the company also does job work for its group company Shivalik Prints Limited and has a total production capacity of 7200 Metric Tonne (M.T.) per annum.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	150.39	154.55
PBILDT	13.45	6.13
PAT	9.07	0.28
Overall gearing (times)	0.50	0.41
Interest coverage (times)	11.07	2.14

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

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			Mar 2022	3.16	CARE BBB-; Stable
Fund-based - ST-EPC/PSC	-	-	-	10.00	CARE A3

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	3.16	CARE BBB-; Stable	-	-	-	-
2.	Fund-based - ST-EPC/PSC	ST	10.00	CARE A3	-	-	-	-

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