# SPL Industries Limited

October 22, 2018

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 2.34 (reduced from Rs. 3.16 cr) | **CARE BBB-; Stable (Triple B Minus; Outlook: Stable)** | **Reaffirmed** |
| Short term Bank Facilities – Packing Credit | 10.00 | **CARE A3 (A Three)** | **Reaffirmed** |
| Short term Bank Facilities – Bank Guarantee | 0.50 | **CARE A3 (A Three)** | **Assigned** |
| **Total Facilities** | **12.84 (Rs. Twelve crore and eighty four lakhs only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of SPL Industries Limited (SPL) factors the experience and resourcefulness of the promoters, established track record of operations, improvement in the operational and financial performance due to change in the business strategy. However, the strengths are negated by the susceptibility of margins to foreign exposure, client concentration risk and fragmented and competitive nature of industry.

Going forward, the ability of the company to improve its scale of operations as well as maintain its profitability 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**

SPL was incorporated in 1991 and is a part of Shivalik Prints Limited group. 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; 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 also provides explicit support to SPL through unsecured loans from promoters and liberal credit terms from group companies in order to meet any liquidity mismatch.

SPL exports its products to various international retail chains and super stores, predominantly in USA, Europe, Canada and Japan.

**Improved operational performance**

The company is engaged in trading of garments and job work (stitching and dying) for Shivalik Prints Limited. In FY18, SPL has enhanced its job work capacity from 7200 MTPA to 9000 MTPA in order to meet higher demand in future from Shivalik Prints which has resulted in higher operating income from it with Rs. 56.28 cr being generated in FY18 as compared to Rs. 37.27 cr in FY17. The cost of the project was ~Rs. 4 cr.

Till Aug'17, the company was primarily engaged in the manufacturing of garments; however, due to the changing customer requirement and comply with the environment regulations, the company was required to incur capital expenditure of ~Rs. 10-15 cr. At the same time, the other group company, namely, Shivalik Prints Limited was engaged in manufacturing of garments with latest machinery and had its manufacturing facilities near to SPL. Therefore, considering the synergies between the two companies, SPL decided to discontinue the manufacturing segment and start with the procurement of the readymade garments from Shivalik. SPL has given its existing manufacturing facilities on rent to Shivalik at monthly rental of Rs. 0.10 cr. Now, the company procures the garments from Shivalik Prints Limited and sells it to its customers.

**Comfortable capital structure with low overall gearing**

The total operating income of the company has improved to Rs. 176.67 cr in FY18 from Rs. 155.53 cr in FY17 due to repeated orders from its clients. The profitability margins have improved with PBILDT margin at 6.09% (PY: 4.56%) and PAT margin at 3.05% (PY: 0.93%) due to selective order processing by the company. The company has changed its policy and is now focusing on those orders wherein the margins are high. The debt coverage ratio has also improved with overall gearing ratio at 0.06x (PY: 0.39x) as on March 31, 2018, due to lower working capital limit utilisation and repayment of

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

term loans. The utilisation is on the lower side due to more business in the trading segment rather than manufacturing segment wherein SPL applies a matching concept as it gets almost the same number of days in credit from Shivalik Prints Limited as it gives to its customers.
The interest coverage ratio has improved to 6.55x (PY: 2.61x) in FY18 due to better profitability margins and lower interest cost. The interest cost has been on the lower side due to repayment of the term loans and lower fund based working capital limit utilisation in FY18.

**Key rating weaknesses**
**Exposure to Foreign Exchange**
The company is predominantly export oriented with total export accounting for 58% (PY: 72%) of the total production in FY18. Though, SPL 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. During FY18, the company reported an income of Rs. 2.00 cr (PY: Rs. 0.17 cr) from foreign exchange fluctuation.

**Client concentration risk**
SPL 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 7 clients constituting over 51% of the total net sales in FY18 indicating high client concentration risk. The top 2 client viz. Shinsegae International and The Children Place “TCP” constituted ~35% of the total net sales in FY18 (~29% in FY17). However, as the company has established strong relationship with its clients over the years; the client concentration risk has been mitigated to a large extent.

**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. There are more than 8,000 exporters registered with Apparel Export Promotion Council (AEPC). 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. Abundant raw material availability, a well-integrated textile industry and good designing skills are the key attributes, which if utilized in an efficient way, can help India to consolidate and grow its position in the global apparel market.

**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
Rating Methodology: Factoring Linkages in Ratings

**About the Company**
SPL 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. SPL is listed on BSE in and NSE since July 2005. In March 2013, the business was taken over by the current management of SPL 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. From Sep’17, the company has stopped manufacturing and has moved into trading of garments.
Apart from this, the company also does job work for its group company Shivalik Prints Limited and has a total production capacity of 9000 Metric Tonne (M.T.) per annum.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|---|---|---|
| Total operating income | 155.53 | 176.67 |
| PBILDT | 7.10 | 10.75 |
| PAT | 1.45 | 5.39 |
| Overall gearing (times) | 0.39 | 0.06 |
| Interest coverage (times) | 2.61 | 6.55 |

*A: Audited*

**Status of non-cooperation with previous CRA:**
NA

**Any other information:**
NA

**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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**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.

**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 | - | - | Sep, 2021 | 2.34 | CARE BBB-; Stable |
| Fund-based - ST-EPC/PSC | - | - | - | 10.00 | CARE A3 |
| Non-fund-based - ST-Bank Guarantees | - | - | - | 0.50 | 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 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 | 2.34 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (16-Aug-17) | - | - |
| 2. | Fund-based - ST-EPC/PSC | ST | 10.00 | CARE A3 | - | 1)CARE A3 (16-Aug-17) | - | - |
| 3. | Non-fund-based - ST-Bank Guarantees | ST | 0.50 | CARE A3 | - | - | - | - |

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