

Scotts Garments Limited

January 13, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities-Term Loan	69.22 (reduced from 99.88)	CARE BBB; Stable (Triple B ; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities-Fund-based	354.00 (enhanced from 324.85)	CARE A3+ (A Three Plus)	Reaffirmed
Short-term Bank Facilities-Non-fund-based	58.30	CARE A3+ (A Three Plus)	Reaffirmed
Total Facilities	481.52 (Rupees Four Hundred Eighty One crore and Fifty Two lakh only)		

Details of facilities in Annexure-1

Detailed Rationale

The ratings assigned to the bank facilities of Scotts Garments Limited (SGL) continue to derive strength from the experienced promoter and management team, the company's long and good operational track record in the garments exports business with broad range of product profile, established and long-standing relation with reputed clients spread across global markets and consistent income growth. The rating also takes into consideration, the successful completion of the capacity expansion undertaken by the company at its Kolar unit.

The ratings are, however, constrained by Scotts Garments Limited's (SGL's) working capital intensive nature of operation owing to high inventory days, increased dependence on working capital borrowing to fund the stretched operating cycle even as income growth remains modest, customer and business concentration risk and company's exposure to foreign currency fluctuation. The rating also takes note of stable operating margin but further moderation in PAT margin during FY16 (refers to the period April 1 to March 31) due to forex losses.

Going ahead, the ability of SGL to manage its working capital efficiently while maintaining healthy profitability margins, and enhance its addressable market by adding new customers to its existing clientele base while successfully managing its forex risk, would remain the key rating sensitivities.

Detailed description of the key rating drivers

SGL primarily focuses on the export of manufactured Ready Made Garments and derives more than 86% (85% in FY15) of revenue from export market with European region contributing to about 77% (80% in FY15) of total export sales in FY16. SGL enjoys long standing relationship with several reputed clients across several global markets attributable to its long standing presence in the industry.

The top five clients accounted for 52% of the company's income in FY16 (52% in FY15). Company's exposure to Best Seller, company's top client has reduced significantly from 52% in FY 14 to 28% in FY16.

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

The company's operation is working capital intensive as evidenced in working capital cycle of 252 days in FY16 (214 days in FY15) primarily owing to high inventory holding days. High operating cycle is on account of its fully integrated nature of its Knits business, dedicated nature of most of its manufacturing units (for respective customers), company not being a volume player but fashion based supplier and company's broad range of product which includes woven, knits and denims for both genders across all ages.

To support its elongated working capital cycle, the company's reliance on working capital borrowings has been persistently high. During the last two years, the reliance on working capital borrowings has risen considerably without commensurate earning of cash accruals resulting in deterioration in key debt coverage metrics.

Analytical approach:

For analytical purposes the standalone financials of Scotts Garments Limited were considered.

Applicable Criteria

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

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

About the Company

Incorporated as M/s. Scotts Garments, a partnership firm on December 01, 1992, SGL commenced business in 1994 with Naseer Ahmed, Refath Jehan Begum and Saifulla Sayed as partners. In 2002, Scotts Garments was converted into a private limited company as Scotts Garments Private Limited (SGPL). In 2007, SGPL was converted into a public limited company. Later in 2009, SGL acquired Arora Fashions Limited which was engaged in readymade garments manufacturing and exports integrated with the dyeing facility.

SGL is primarily engaged in the manufacture and export of ready-made garments (RMG). A Government approved export house having in-house manufacturing facility for woven and knitted garments that includes Shirts (Cotton, Denim) Tops, Skirts, Trouser (Cotton, Denim), Shorts, Cargos, T-Shirts (Basic and Embroidered), Sweats and Jerseys supported by additional facilities such as embroidery, printing, dyeing and washing. SGL's facilities are located in Karnataka and Tamil Nadu. The company had an installed capacity of 315.18 lakh pieces per annum as on September 30, 2016 (294.3 lakh as on Mar'15) spread across knitted and woven garments. SGL has 6.6 MW capacity windmills at Bellary (Karnataka) and Tamil Nadu. SGL also has an associate company operating in the name of 'Inmark Retail Private Limited' setup in October 2011 is engaged in the business of retailing fashion apparels through various retail shops under the brand INMARK, which currently operates eighteen showrooms.

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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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.

Disclaimer

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of 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	-	-	September 2020	69.22	CARE BBB; Stable
Fund Based - ST-Working Capital Limits	-	-	-	354.00	CARE A3+
Non-Fund Based - ST-BG/LC	-	-	-	58.30	CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Chronology of Rating history for past three years			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT-Term Loan	LT	69.22	CARE BBB; Stable	-	1)CARE BBB (04-Feb-16)	1)CARE BBB (28-Jan-15)	1)CARE BBB (09-Dec-13)
2.	Fund Based - ST-Working Capital Limits	ST	354.00	CARE A3+	-	1)CARE A3+ (04-Feb-16)	1)CARE A3+ (28-Jan-15)	1)CARE A3+ (09-Dec-13)
3.	Non-Fund Based - ST-BG/LC	ST	58.30	CARE A3+	-	1)CARE A3+ (04-Feb-16)	1)CARE A3+ (28-Jan-15)	1)CARE A3+ (09-Dec-13)

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