

Suditi Industries Limited

October 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	27.00	CARE BB-; Stable; ISSUER NOT COOPERATING* (Double B Minus; Outlook: Stable; ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable) on the basis of best available information
Short Term Bank Facilities	1.00	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING)	Issuer not cooperating; Revised from CARE A4+ (A Four Plus) on the basis of best available information
Total Facilities	28.00 (Rs. Twenty Eight Creore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Suditi Industries Limited (SIL) to monitor the rating(s) vide e-mail communications/letters dated June 9, 2020, July 14, 2020, August 06, 2020, September 10, 2020, September 24, 2020 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on SIL's bank facilities will now be denoted as **CARE BB-; Stable/ CARE A4; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

The ratings revised on account of non-cooperation by SIL and CARE's efforts to undertake a review of the ratings outstanding. CARE views information availability risk as a key factor in its assessment of credit risk.

Detailed description of the key rating drivers

At the time of last rating on November 22, 2019, the following were the rating strengths and weaknesses (Updated for the information available from Bombay Stock Exchange):

Key Rating Weaknesses

Modest scale of operations: The scale of operations of SIL stood modest with the total operating income (TOI) ranging from Rs.96.29 to Rs.111.44 crore over FY18-FY20. However, the same has been fluctuating over the same period. Given the modest scale of operations, the tangible net-worth base also stood relatively modest, thereby limiting the financial flexibility of the company to that extent. Furthermore, during Q1FY21 the company has achieved TOI of Rs.2.94 crore (vis-à-vis Rs.14.78 crore in Q4FY20 and Rs.29.79 crore in Q1FY20) as the operations were severely impacted due to lockdown imposed by the government on account of COVID-19 situation aroused in the country.

Moderate profit margins: The PBILDT margin of SIL stood moderate in the range of 6.40%-9.57% over FY18-FY20 owing to relatively moderate margins commanded on its products, given the intense competition in the market. Moreover, the same have been fluctuating over the same period owing to volatility in yarn & fabrics prices. Further, given the high depreciation and finance cost, the PAT margin has also stood moderately low in the range of 0.02-3.51% during said periods. Furthermore, during Q1FY21 the company has booked operating loss of Rs.2.16 crore and net loss of Rs.3.70 crore.

Weak debt coverage indicators: On account of significant decrease in the profitability and increase in dependence on debt funds and thereby interest cost, the debt coverage indicators have deteriorated on y-o-y basis and the same stood weak in FY20 marked by interest coverage and total debt to gross cash accruals stood at 1.58 times and 16.82 times respectively in FY20 (vis-à-vis 3.30 times and 5.75 times respectively in FY19).

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

*Issuer did not cooperate; Based on best available information

Working capital intensive nature of operations marked by high inventory holding & collection coupled with high reliance on fund-based limits: The operations of SIL are highly working capital intensive in nature with majority of funds for over 110-136 days blocked in inventory, given the long production cycle. Moreover, funds for over 85-158 days are blocked in debtors, given the credit period required to be extended to the reputed customers in the textile & retail market. Given this, the operating cycle stood elongated ranging from 153-199 days over FY18-FY20. **Supplier concentration risk:** The supplier dependence has increased during FY19 with the top 5 suppliers comprising 54.95% of the total purchases in FY19 (vis-à-vis 30.36% of the total purchases in FY18) which led to supplier concentration risk.

Competitive & fragmented nature of operations albeit mitigated by licensing agreements in place: SIL operates in a highly competitive & fragmented industry wherein a large no. of organized and unorganized players in the textile manufacturing segment, operate in the given environment. Moreover, since the majority of the operations of the company comprise fabrics processing, the company faces stiff competition from the other small & medium players belonging to the textile processing segment. On the other hand, there are numerous apparel brands catering to the men & women casual wear segment, thereby intensifying the competition for the company.

Key Rating Strengths

Long track record of vertically integrated operations with diverse business mix: SIL has a long track record of over 27 years of operations in processing of fabrics and manufacturing & retailing of RMG & apparels. The licensed brands segment includes manufacturing of licensed clothing line consisting of fashion apparels for men, including T-shirts, sweatshirts, polos, jackets, track pants, boxers, etc. for various international clubs. Moreover, the own brand segment includes casual fashion wear for men and women, including denims, bottoms, jackets, shirts, skirts, dresses, cardigans, tunics, coupled with accessories like belts, bags and flip flops, which are marketed under the brand "Riot". On the other hand, the large retailers' segment includes casual wear, sportswear and active wear for men, women and kids, which are catered to large retailers under their brand names. The operations of the company offer backward integration for the garmenting section, since the fabric processing is carried out in-house, given the established setup of the processing unit.

Highly experienced promoters and strong group presence: The overall operations of SIL are looked after by Mr. Pawan Agarwal, Chairman & MD, who possesses an extensive experience of over three decades in the textile processing & manufacturing operations, majorly gained by way of this company. Prior to the incorporation of SIL, he with his father and brothers was associated with various companies in the RPK Group, the already established group with more than three decades of operations in the textiles business.

Established market presence with diverse marketing network, reputed & moderately diversified customer base and renowned brand image: SIL has a wide marketing network for selling its RMG & apparels. The products under "Riot" along with licensed brands are sold through 150 Multi Brand Outlets (MBOs) and Large Format Stores (LFSs) spread across 15 states in India, including Shoppers Stop, Pantaloons, Lifestyle, Walmart, Central, etc., coupled with major online platforms (including owned ones) viz. Myntra, Amazon, Flipkart, Jabong, Snapdeal, Riot and Indianink. On the other hand, the company possesses reputed set of customer base for its fabric processing and large retailers' segment. Moreover, the customer profile of the company remained moderately diversified with top 5 customers constituted 29.68% of its total sales for FY19.

Licensing rights in place for FC Barcelona, Manchester City FC, MTV and Yuvraj Singh's brand: SIL has acquired licensing rights from leading football clubs and entertainment company to manufacture & merchandise licensed clothing line consisting of fashion apparels for men, using their brand logo on the said clothing in order to attract the youth fan-base interested in football and entertainment. The said agreements with these clubs are valid for a period of about 3 years, renewable thereafter at the will of the clubs. SIL has licentiate agreement with sports clubs/association like YouWeCan, NBA Properties-USA and PSG-Paris, to manufacture & merchandise a licensed clothing line that will include lifestyle & fashion apparel for men, women and kids.

Comfortable capital structure: The capital structure of SIL stood comfortable with the overall gearing stood at 0.84 times as on March 31, 2020 from 0.79 times as on March 31, 2019. However, the same has slightly deteriorated given the increase in the reliance on debt funds during the year.

Liquidity Analysis: Stretched

Liquidity is marked by tightly matched accruals to repayment obligations, highly utilized bank limits the marked by more than 90% utilized working capital limits in last 12 months ended September, 2020 and low cash balance of Rs.0.67 crore as on March 31, 2020. Further, the current ratio and quick ratio stood at 1.33 times and 0.78 times respectively as on March 31, 2020 (vis-à-vis 1.38 times and 0.87 times respectively as on March 31, 2019). Cash flow from operating activities stood positive of Rs.3.96 crore in FY20.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

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

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

[Rating Methodology – Manufacturing Companies](#)

[Rating Methodology – Cotton Textile Manufacturing](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Incorporated in 1991 by Mr. Pawan Agarwal, SIL (erstwhile Suditi Hosiery Processors Limited, changed name to Suditi Industries Limited (SIL) in October 1994) is engaged in processing of fabrics and manufacturing & retailing of RMG & apparels. SIL derives majority of revenues from processing of fabrics comprising local sales as well as on job-work basis. It also manufactures casual wear, sportswear and active wear for men, women and kids, which are catered to large retailers under their brand names. On the other hand, it outsources the manufacturing of casual fashion wear for men and women, which is marketed under its own brand "Riot". Moreover, it also outsources the manufacturing of licensed clothing line consisting of fashion apparels for men, for various international clubs, using their brand logo on the said clothing. Moreover, in March 2015, it incorporated a subsidiary named Suditi Design Studio Limited (SDSL) engaged in manufacturing & retailing of women ethnic & fusion wear under its own brand "Indianink" which is marketed through LFSs, own online portal as well as other online stores. Furthermore, the products under its own brand and licensed brands are available in various outlets all over India, as well as at various online shopping platforms. The processing unit of the company is located at Turbhe in Navi Mumbai, possessing an installed capacity of 4,050 MTPA. On the other hand, its RMG & apparels manufacturing facility located at the same place comprises an installed capacity of 12 lakh pieces per annum comprises of manufacturing of RMG & apparels for large retailers' brands. On the other hand, it procures yarn or grey cloth, dyes and chemicals from local suppliers of the same.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	Q1FY21 (UA)
Total operating income	111.46	96.29	2.94
PBILDT	10.67	6.16	-2.16
PAT	3.91	0.02	-3.70
Overall gearing (times)	0.79	0.84	NA
Interest coverage (times)	3.30	1.58	NM

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating History (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-Cash Credit	-	-	-	27.00	CARE BB-; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Letter of credit	-	-	-	1.00	CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (03-Oct-18)	1)CARE BBB-; Stable (10-Nov-17)
2.	Fund-based - LT-Cash Credit	LT	27.00	CARE BB-; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable (22-Nov-19) 2)CARE BBB-; Negative (09-Oct-19)	1)CARE BBB-; Stable (03-Oct-18)	1)CARE BBB-; Stable (10-Nov-17)
3.	Non-fund-based - ST-Letter of credit	ST	1.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4+ (22-Nov-19) 2)CARE A3 (09-Oct-19)	1)CARE A3 (03-Oct-18)	1)CARE A3 (10-Nov-17)

*Issuer did not cooperate; Based on best available information

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. 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.

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