

## Suditi Industries Limited

October 09, 2019

### Ratings

Facilities	Amount (Rs. Crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	27.00	<b>CARE BBB-; Stable</b> <b>(Triple B Minus; Outlook: Stable)</b>	<b>Reaffirmed; Outlook revised from Stable to Negative</b>
Short-term Bank Facilities	1.00	<b>CARE A3</b> <b>(A Three)</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>28.00</b> <b>(Rupees Twenty Eight crore only)</b>		

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Suditi Industries Limited (SIL) continues to derive strength from the company's long track record of vertically integrated operations with diverse business mix, highly experienced promoters with strong group presence, diverse marketing network, moderately diversified customer base, licensing rights in place for various brands, comfortable capital structure and moderate debt coverage indicators.

The ratings, however, are continues to be constrained by its modest scale of operations albeit continuous growth over last 3 years ended FY19 (refers to the period April 1 to March 31), moderate profit margins with susceptibility to raw material prices volatility, working capital intensive nature of operations, supplier concentration risk and presence in competitive & fragmented textile industry. The ratings also take into consideration the significant elongation in collection period which led to increase the dependence in working capital borrowings.

SIL's ability to increase the scale of operations and improve profit margins amidst competitive scenario and also improve the capital structure and liquidity position by efficiently managing the operating cycle, are the key rating sensitivities.

### Outlook: Negative

The outlook is 'Negative' on account of deterioration in its liquidity position due to significant increase in the outstanding debtors which led to increase its dependence on its working capital limits. The outlook may be revised to 'Stable' if the company is able to recover its outstanding debtors and reduce its dependence on working capital limits and thereby improve its liquidity position.

### Detailed description of the key rating drivers

#### 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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications.

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 and moderate debt coverage indicators:** The capital structure of SIL stood comfortable with the overall gearing at 0.79 times as on March 31, 2019 from 0.62 times as on March 31, 2018, given the high reliance on owned funds. However, led by moderate profitability, the debt coverage indicators stood moderate.

#### Key Rating Weaknesses

**Modest scale of operations:** The scale of operations of SIL stood modest with the total operating income ranging from Rs.81.56 to Rs.111.44 crore over FY17-FY19. However, the same has been continuously improving over the same period owing to increasing sales from licensed clothing line and processed fabrics, etc. 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.

**Moderate profit margins:** The PBILDT margin of SIL stood moderate in the range of 9.46%-10.03% over FY17-FY19 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 2.59%-3.51% during said periods.

**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 110-129 days blocked in inventory, given the long production cycle. Moreover, funds for over 85-108 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 153-164 days over FY17-FY19. Further, the outstanding debtors position has significantly increased from Rs.23.36 crore in FY18 to Rs.43.65 crore in FY19 which led to increase its dependence on fund based working capital limits over the last 12 months ended August, 2019.

**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.

#### Liquidity Analysis:

The liquidity position is marked by moderate current ratio and quick ratio at 1.38 times and 0.87 times respectively as on March 31, 2019 (1.36 times and 0.87 times respectively as on March 31, 2018). Further, cash flow from operating activities stood negative at Rs.7.65 crore as on March 31, 2019 (vis-à-vis positive at Rs.2.79 crore as on March 31, 2018). The average fund based working capital limits stood high at 97.48% in last 12 months ended August, 2019. Further, the company has sufficient cushion in accruals vis-à-vis repayment obligations and cash balance Rs.0.22 crore as on March 31, 2019 (vis-à-vis Rs.0.17 crore as on March 31, 2018). Moreover, the company has kept fixed deposit of Rs.0.29 crore with bank with maturity of more than 12 months.

**Analytical approach:** Standalone

#### Applicable Criteria

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

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

[CARE's Methodology for Short-term Instruments](#)  
[CARE's Methodology for Manufacturing Companies](#)  
[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 (utilized at 81.22% in FY19). 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)	FY18 (A)	FY19 (A)
Total operating income	97.83	111.46
PBILDT	9.25	10.67
PAT	3.38	3.91
Overall gearing (times)	0.62	0.79
Interest coverage (times)	3.04	3.30

A: Audited

Status of non-cooperation with previous CRA: Nil

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-Cash Credit	-	-	-	27.00	CARE BBB-; Negative
Non-fund-based - ST-Letter of credit	-	-	-	1.00	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 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	-	-	-	1)Withdrawn (03-Oct-18)	1)CARE BBB-; Stable (10-Nov-17)	1)CARE BBB- (06-Sep-16)
2.	Fund-based - LT-Cash Credit	LT	27.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (03-Oct-18)	1)CARE BBB-; Stable (10-Nov-17)	1)CARE BBB- (06-Sep-16)
3.	Non-fund-based - ST-Letter of credit	ST	1.00	CARE A3	-	1)CARE A3 (03-Oct-18)	1)CARE A3 (10-Nov-17)	1)CARE A3 (06-Sep-16)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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