

Press Release

Sobhagia Sales Private Limited (SSPL)

May 12, 2017

Rating Upgraded

Total Bank Facilities Rated*	Rs.27.78 Cr (Enhanced from Rs.17.00 Cr)
Long Term Rating	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)

**Refer Annexure for details*

Rating Rationale

SMERA has upgraded the long-term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) from **SMERA BB+**' (read as **SMERA double B plus**) on the Rs.27.78 crore bank facilities of Sobhagia Sales Private Limited (SSPL). The outlook is '**Stable**'.

Sobhagia Sales Private Limited (SSPL) was established in 1993 by Mr. Raj Avasthi and Mr. Munish Avasthi. The company, part of the Sportking Group, is engaged in manufacturing and trading of hosiery and readymade garments for men, women, and kids at its unit in Ludhiana (Punjab). Its main products are pullovers, track suits, cardigans, infant wear among others. It sells its products through its 85 outlets including 65 own stores. SSPL's products are sold under its brands, 'Sportking', 'Mentor', 'Sublime' and 'Woodburn'.

SMERA has consolidated the business and financial risk profiles of the SSPL with M/s Classic Wears Private Limited (Group Company of Sobhagia Sales Private Limited). This is because both the companies have been merged with effect from 29th October, 2016.

The rating upgrade takes into account significant operating synergies on account of merger with group concern M/s Classic Wears Private Limited which was engaged in the manufacturer of hosiery garments such as sweater. Now, SPPL is moving with additional products of hosiery garments. The substantial improvement in market position on account of diversification into the hosiery garments business coupled with increase in outlets/showrooms.

List of key rating drivers and their detailed description

Strengths:

Long track record of operations and experienced management: The promoters of SSPL, Mr. Raj Kumar Avasthi and Mr. Munish Avasthi possess over five decades experience in the garments industry. SMERA expects SSPL to benefit substantially from its promoters' long standing relationship with various business stakeholders.

Healthy financial risk profile: The financial risk profile of the company is healthy marked by comfortable gearing, interest coverage and networth. SSPL has comfortable gearing (debt-to-equity) at 0.30 times as on 31 March, 2016 against 0.45 times in the previous year. The improvement in the gearing levels is mainly on account of conversion of Rs 4.53 crore of unsecured loans into quasi equity in FY15-16 against Rs.1.59 crore in FY14-15. The interest coverage ratio stood at 3.88 times in FY2015-16 against 4.23 times in FY2014-15. The debt

service coverage ratio (DSCR) stood at 1.74 times in FY2015-16 against 1.76 times in FY2014-15. The net worth of the company stood at Rs.67.16 crore as on 31 March, 2016 against Rs.59.70 crore a year earlier, owing to retention of profits in the business. The net cash accrual (NCA)/ Total debt (TD) stood at 0.51 times in FY15-16 against 0.36 times in year earlier.

Established brand & wide retail network: The company sells readymade garments with four established brands like 'Sportking', 'Sublime', 'Woodburn', and 'Mentor' from its showrooms located across India including Delhi, Punjab, Haryana, J&K and Rajasthan. It has developed an established position in readymade garments retailing industry majorly in these states. The company has total 85 showrooms across North India.

Weaknesses:

Challenges face in revenue growth on account of highly competitive industry: SSPL has muted growth in revenue of Rs.147.13 crore in FY15-16 against 146.78 crore in FY14-15 due to slow down in market and lower sale of winter garments. Further, the company has achieved operating income of ~Rs. 147.00 crore till February, 2017 in FY16-17.

Susceptibility of profit margins to raw material prices: The profit margins are susceptible to fluctuations in the raw material prices of yarn.

Analytical approach:

SMERA has consolidated the business and financial risk profiles of the SSPL with M/s Classic Wears Private Limited (Group Company of Sobhagia Sales Private Limited). This is because both the companies have been merged with effect from 29th October, 2016.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>
- Consolidation - <https://www.smera.in/criteria-consolidation.htm>

Outlook: Stable

SMERA believes SSPL will maintain its stable business risk profile in the medium term on the back of established operations and long standing experience of the promoter in the business. The outlook may be revised to 'Positive' in case of significant improvement in revenue, profitability and accruals. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in profitability and accruals.

About the Rated Entity

Sobhagia Sales Private Limited (SSPL) was established in 1993 by Mr. Raj Avasthi and Mr. Munish Avasthi. The company, part of the Sportking Group, is engaged in manufacturing and trading of hosiery and readymade garments for men, women, and kids at its unit in Ludhiana (Punjab). Its main products are pullovers, track suits, cardigans, infant wear among others. It sells its products through its 85 outlets including 65 own stores. SSPL's products are sold under its brands, 'Sportking', 'Mentor' 'Sublime' and 'Woodburn'.

The installed manufacturing capacity of the company is 6000 pieces per day for knitted cloth.

For FY2015-16, the company reported profit after tax (PAT) of Rs.4.54 crore on operating income of Rs.147.13 crore, as compared with PAT of Rs.4.38 crore on operating income of Rs.146.78 crore in FY2014-15. The net worth stood at Rs.67.16 crore (included quasi equity of Rs.4.53 crore) as on 31 March, 2016 against Rs.59.70 crore (included quasi equity of Rs. 1.59 crore) a year earlier.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	2017 (Current)			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Term Loan	LT	4.03 (Reduced from 6.66)	SMERA BBB-/Stable (Upgraded from SMERA BB+)	March 31, 2016	SMERA BB+/Stable (Assigned)	-	-	-	-
Cash Credit	LT	10.00	SMERA BBB-/Stable (Upgraded from SMERA BB+)	March 31, 2016	SMERA BB+/Stable (Assigned)	-	-	-	-
Proposed Long Term	LT	13.75 (Enhanced from 0.34)	SMERA BBB-/Stable (Upgraded from SMERA BB+)	March 31, 2016	SMERA BB+/Stable (Assigned)	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Term Loan	N.A	N.A	N.A	4.03 (Reduced from 6.66)	SMERA BBB-/Stable (Upgraded from SMERA BB+)
Cash Credit	N.A	N.A	N.A	10.00	SMERA BBB-/Stable (Upgraded from SMERA BB+)
Proposed Long Term	N.A	N.A	N.A	13.75 (Enhanced from 0.34)	SMERA BBB-/Stable (Upgraded from SMERA BB+)

Note on complexity levels of the rated instrument:<https://www.smera.in/criteria-complexity-levels.htm>**Contacts:**

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ABOUT SMERA

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