Press Release

Sindh Garments

December 23, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 42.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** on the Rs. 42.00 Cr bank facilities of Sindh Garments. The outlook is **'Stable'**.

Sindh Garments (SG), established in 2000 by Mr. Premchand Hirwani and Mr. Sanjay Hirwani is based out of Nagpur, Maharashtra. It is primarily engaged in wholesale trading of readymade garments. Although the firm was established in 2000, the Hirwani family has been engaged in this business for the last 50 years.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Sindh Garments (SG) for arriving at the rating.

Key Rating Drivers

Strengths

- **Family lineage in the business coupled with long track of operations**
  SG, though established in 2000, the Hirwani family has been engaged in the whole trading of readymade garment for the last 50 years. Mr. Premchand has over two decades of experience in RMG trading business and is well supported by second generation. Mr. Sanjay, second generation, has an overall experience of over a decade and is involved in the day-to-day operations of the firm. Over the years, the firm has developed strong relationship with clients, backed by its relationships with clients and addition of new clients, firm has doubled its turnover in the past 4 years. The firm has clients spread across various states such as Maharashtra, Madhya Pradesh, Chhattisgarh Andhra Pradesh and Telangana. With respect to its long-standing presence in the market and long-term relationship with the customers and suppliers, the firm has reported revenue of Rs.107.4 Cr in FY2020 with minor setback in March, 2020 revenue due to outbreak of covid-19 and subsequent lockdown in the nation. However, the firm has already achieved turnover of Rs.86.4 Cr till Nov 20, 2020 surpassing previous year's revenues until November 2019. Acuité believes that the partner's business experience and established relation with its customers and suppliers will aid SG's business risk profile over the medium term.

- **Healthy financial risk profile supported by comfortable debt protection metrics**
  SG's financial risk profile is healthy, marked by healthy capital structure and supported by comfortable debt protection metrics partly constrained by moderate networth level. SG's net worth profile is improving marked by y-o-y infusion of interest free unsecured loan subordinated to banks which stood at Rs. 45.74 Cr as on March 31, 2020 as against Rs.38.92 Cr as on previous year. The firm's reliance on external borrowings has remained low reflecting in low gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) ratio of 0.82 times and 1.34 times respectively, as on March 31, 2020 vis-à-vis 0.70 times and 1.54 times March 31, 2019.
  The margins have remained stable for last three years ending FY2020 and stood in the range of 6 to 7 percent. This has led to comfortable debt protection metrics reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 2.64 times and 0.13 times, respectively, in FY2020 vis-à-vis 3.22 times and 0.21 times for FY2019. Its accruals are expected in the range of Rs. 5.00 – 7.00 Cr over the medium term, against repayment obligations of about Rs. 3.87 Cr to Rs.4.88 Cr over the same term. Acuité believes that healthy cash accruals supported by lower reliance on the debt will lead to the maintenance of healthy financial risk profile over the medium term.

- **Moderate scale of operations; albeit improving**
  SG's scale of operations is moderate, marked by revenues of Rs.107.40 Cr in FY2020 as compared to Rs.115.46 Cr in FY2019; revenue in March 2020 was impacted due to outbreak of covid. The operating margin remained moderate yet sustained at 6.34 percent to 7.27 percent over the last two years ending FY2020. The revenue growth is attributable to lengthy customer relationships coupled with additions of new clients, similarly, the growth in margins is on account of timely payment to creditors, leading to lower RM cost. SG has booked revenues of Rs.86.4 Cr and operating margin of 8.1 percent until November 20, 2020. Q1FY2021 was impacted due to lockdown across the nation restricting the movement of goods and people, however, the firm has managed to maintain its scalability despite the initial setback. Acuité believes that SG's scale of operations is likely to keep improving and remain moderate over the medium term given the nature of demand of product and additions in customer profile.

Weaknesses

- **Working capital intensive operations**
  The working capital operations are intensive in nature reflected by days in the range of 285 to 360 days over the last 3 years ending March 31, 2020. The GCA days are high marked by high inventory days and receivable terms with customers. Inventory includes stock of RMG which stood at Rs.53.1 Cr as on March 31, 2020 (195 days), which includes unsold stock in March end due to outbreak of covid and lockdown in the nation. The debtor days stood at 99 days in FY2020 against 87 days in FY2019. The firm has to maintain an average of two months to cater to on-spot and immediate orders. Due to high inventory procurement and receivable terms with customers, the firm's working capital bank limits were utilized highly at an average 94.9 percent through last twelve months ending October, 2020.
  Acuité believes that the operations of the SG will remain working capital intensive in nature on account of high inventory holding and lengthy terms with customers.

- **Competitive and fragmented industry**
  The firm functions in a highly fragmented industry with the presence of a large number of players which eventually limits its bargaining power with customers.

- **Risks of withdrawal of capital associated with partnership nature of business**
  SG has been operating as a partnership concern since its inception and therefore, any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

Rating Sensitivities
- Lower than expected growth in revenue and impact on profitability
- Further stretch in working capital cycle, leading to an increase in working capital borrowings and weakening the liquidity

Liquidity: Adequate

SG's liquidity is adequate, marked by adequate net cash accruals against its modest debt obligations, healthy current ratio. SG generated cash accruals of Rs.4.91 Cr in FY2020 against debt obligations of Rs.1.64 Cr for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.5.00 Cr - 7.00 Cr during FY2021-23 against repayment obligations of Rs.3.87 Cr to Rs.4.88 Cr for the same period. The average fund-based working capital utilization stood high at 94.9 percent for the past twelve months ended October, 2020 on account of its working capital-intensive nature of business. The firm has low unencumbered cash and bank balances for the period ending March 31, 2020 which stood at Rs.0.35 Cr. The current ratio stood healthy at 2.01 times as on March 31, 2020. Acuité believes that SG's liquidity will remain adequate over the medium term backed by adequate cash accruals against repayment obligations.

Outlook: Stable

Acuité believes that SG will continue to benefit over the medium term due to its experienced management and its healthy financial risk profile. The outlook may be revised to 'Positive', in case of higher-than-expected revenues and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case SG registers lower-than-expected decline in revenues and profitability or any significant stretch in its working capital management leading to the deterioration of its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	107.40	115.46
PAT	Rs. Cr.	4.51	5.42
PAT Margin	(%)	4.20	4.70
Total Debt/Tangible Net Worth	Times	0.82	0.70
PBDIT/Interest	Times	2.64	3.22

Status of non-cooperation with previous CRA
Not Applicable

Any other information
Not Applicable

Any Material Covenants
- Unsecured Loans as proposed should be maintained during currency of loan and shall be subordinate to bank borrowings

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-61.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)
Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BBB-/Stable (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	5.70	ACUITE BBB-/Stable (Assigned)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	2.20	ACUITE BBB-/Stable (Assigned)
Term Loan	Feb, 2020	11.45%	May, 2024	7.50	ACUITE BBB-/Stable (Assigned)
Term Loan	Sep, 2019	11.55%	Sep, 2026	4.50	ACUITE BBB-/Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE BBB-/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Sagarikaa Mukherjee Analyst - Rating Operations Tel: 022-49294033 sagarikaa.mukherjee@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.