

## Press Release Sindh Garments

March 03, 2023

### Rating Upgraded



| Product                            | Quantum (Rs. Cr) | Long Term Rating                | Short Term Rating |
|------------------------------------|------------------|---------------------------------|-------------------|
| Bank Loan Ratings                  | 42.00            | ACUITE BBB-   Stable   Upgraded | -                 |
| Total Outstanding Quantum (Rs. Cr) | 42.00            | -                               | -                 |

### Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE Double B plus**) on the Rs. 42.00 Cr bank facilities of Sindh Garments. The outlook is '**Stable**'.

#### Rationale for Upgrade

The rating upgrade takes into account stable operating and financial performance of SG marked by stable operating income, profitability margins, and improving financial risk profile. Further, the rating continues to draw comfort from experienced management coupled with long track of operations. However, the working capital intensive nature of operations, competitive and fragmented nature of industry constrain the rating. Going forward, the firm's ability to restrict further elongation in its working capital cycle and improving the scale of operations while maintaining the profitability margins and capital structure shall remain a key rating monitorable.

#### About the Firm

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

Acuite 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.

Constituted in 2000, SG is managed by its partners MR. Premchand Hirwani and MR. Sanjay Hirwani. Though established in 2000, the Hirwani family has been engaged in the wholesale 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, son of Mr. Premchand, 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 who are spread across various states such as Maharashtra, Madhya Pradesh,

Chhattisgarh Andhra Pradesh and Telangana. 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.

### **Moderate financial risk profile**

SG's financial risk profile is moderate, marked by healthy net-worth, low gearing, and moderate debt-protection metrics. SG's net worth stood at Rs.46.93 Cr as of March 31,2022 against Rs.43.86 Cr as of the March 31,2021. The net-worth includes Rs.21.20 Cr of unsecured loans subordinated to bank loans and treated as quasi equity. The firm's reliance on external borrowings has remained low reflecting in low gearing(debt-to-equity) and total outside liabilities to tangible net-worth (TOL/TNW) ratio of 0.90 times and 1.40 times respectively, as of March 31, 2022 against 1.02 times and 1.80 times as of March 31,2021.

The debt protection metrics reflected in interest coverage (ICR) and DSCR of 4.56 times and 1.48 times, respectively, in FY2022 against 2.24 times and 1.18 times in FY2021 recorded a significant improvement driven by higher net profit margins earned by the firm on account of gain on sale of property of Rs. 6.52 Cr. the debt-protection metrics are expected to moderate over medium term. however, Acuite believes that the financial risk profile of the company will remain moderate, supported by comfortable gearing and moderate debt-protection metrics and absence of any major debt funded capex plan over the medium term.

### **Stable operating performance**

The revenue of Sindh Garments in FY2022 stood at Rs.122.61 Cr against Rs.122.90 Cr in FY2021. SG's revenue plateaued in FY2022 as demand levels were impacted due to the outbreak of Covid-19 Pandemic during the first quarter of FY2022. SG's revenues are usually higher during the pre-festive and pre-wedding season of September–October and February–April.

SG has booked revenues of Rs.102.38 Cr with an operating margin of 7.49 percent until December 2022. The operating margin stood at 6.40 percent in FY2022 against 6.69 percent in FY2021. Net profit margin stood at 8.99 percent in FY2022 against 3.43 percent in FY2021. The improvement in net profit margin is driven by gain on sale of property of Rs. 6.52 Cr in FY2022.

Acuite believes that the SG's scale of operations is likely to improve over the medium term given the nature of demand of products and additions in customer profile.

### **Weaknesses**

#### **Working Capital Intensive Operations**

The working capital operations of are intensive in nature reflected by high GCA days of 327 days in FY2022 against 244 days in FY2021. The GCA days are driven by high but improving inventory days of 136 days in FY2022 against 185 days in FY2021. The inventory consists of ready-made garments stock. The receivable days stood at 112 days in FY2022 against 101 days in FY2021. SG is working on its receivables term with customers by way of providing discounts for quicker payments/cash purchases. Going ahead, receivable days are expected to improve over medium term. Due to high inventory levels and lenient receivable terms with customers, the firm's working capital bank limits were highly utilised at an average 97.8 percent through last eleven months ending November 2022. Acuite believes that the operations of the SG would improve but will remain working capital intensive in nature on account of high inventory holding and lenient credit terms provided to 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.

#### **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.

### **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 position

### Material covenants

None

### Liquidity Position

#### Adequate

SG's liquidity is adequate, marked by adequate net cash accruals against repayment obligations.. SG generated cash accruals of Rs.11.37 Cr in FY2022 against debt repayment obligation of Rs.6.64 Cr during the same period. The cash accruals are expected to remain in the range of around Rs.3.98-5.38 Cr during FY2022-24 against repayment obligations of Rs.2.99 Cr to Rs.1.76 Cr for the same period. Also, during the year, SG sold a property, and the proceeds from the same were used for pre-payment of a term loan of Rs.5.66 Cr. The average fund-based working capital utilization stood high at 97.8% percent for the past eleven months ending November 2022 on account of its working capital-intensive nature of business. The firm has low unencumbered cash and bank balances of Rs.0.28 Cr as on March 31, 2022. The current ratio stood healthy at 1.94 times as on March 31, 2022. Acuite believes that SG's liquidity will remain adequate over the medium term backed by adequate cash accruals against repayment obligations.

### Outlook: Stable

Acuite believes that SG will continue to benefit over the medium term due to its experienced management and ,moderate 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.

### Other Factors affecting Rating

None

### Key Financials

| Particulars                   | Unit    | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income              | Rs. Cr. | 122.61         | 122.90         |
| PAT                           | Rs. Cr. | 11.03          | 4.22           |
| PAT Margin                    | (%)     | 8.99           | 3.43           |
| Total Debt/Tangible Net Worth | Times   | 0.90           | 1.02           |
| PBDIT/Interest                | Times   | 4.56           | 2.24           |

### Status of non-cooperation with previous CRA (if applicable)

Not applicable

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood

that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria “Complexity Level Of Financial Instruments” on [www.acuite.in](http://www.acuite.in).

## Rating History

| Date        | Name of Instruments/Facilities | Term      | Amount (Rs. Cr) | Rating/Outlook                                       |
|-------------|--------------------------------|-----------|-----------------|--|
| 15 Mar 2022 | Term Loan                      | Long Term | 4.50            | ACUITE BB+ (Downgraded and Issuer not co-operating*) |
|             | Term Loan                      | Long Term | 7.50            | ACUITE BB+ (Downgraded and Issuer not co-operating*) |
|             | Proposed Bank Facility         | Long Term | 0.10            | ACUITE BB+ (Downgraded and Issuer not co-operating*) |
|             | Working Capital Demand Loan    | Long Term | 5.70            | ACUITE BB+ (Downgraded and Issuer not co-operating*) |
|             | Working Capital Term Loan      | Long Term | 2.20            | ACUITE BB+ (Downgraded and Issuer not co-operating*) |
|             | Cash Credit                    | Long Term | 22.00           | ACUITE BB+ (Downgraded and Issuer not co-operating*) |
| 23 Dec 2020 | Working Capital Demand Loan    | Long Term | 5.70            | ACUITE BBB-   Stable (Assigned)                      |
|             | Proposed Bank Facility         | Long Term | 0.10            | ACUITE BBB-   Stable (Assigned)                      |
|             | Cash Credit                    | Long Term | 22.00           | ACUITE BBB-   Stable (Assigned)                      |
|             | Term Loan                      | Long Term | 4.50            | ACUITE BBB-   Stable (Assigned)                      |
|             | Working Capital Term Loan      | Long Term | 2.20            | ACUITE BBB-   Stable (Assigned)                      |
|             | Term Loan                      | Long Term | 7.50            | ACUITE BBB-   Stable (Assigned)                      |

## Annexure - Details of instruments rated

| Lender's Name        | ISIN           | Facilities                       | Date Of Issuance | Coupon Rate    | Maturity Date  | Complexity Level | Quantum (Rs. Cr.) | Rating                          |
|----------------------|----------------|----------------------------------|------------------|----------------|----------------|------------------|-------------------|---------------------------------|
| Punjab National Bank | Not Applicable | Cash Credit                      | Not Applicable   | Not Applicable | Not Applicable | Simple           | 25.00             | ACUITE BBB-   Stable   Upgraded |
| Not Applicable       | Not Applicable | Proposed Long Term Bank Facility | Not Applicable   | Not Applicable | Not Applicable | Simple           | 10.54             | ACUITE BBB-   Stable   Upgraded |
| Punjab National Bank | Not Applicable | Working Capital Term Loan        | Not available    | Not available  | Not available  | Simple           | 3.30              | ACUITE BBB-   Stable   Upgraded |
| Punjab National Bank | Not Applicable | Working Capital Term Loan        | Not available    | Not available  | Not available  | Simple           | 3.16              | ACUITE BBB-   Stable   Upgraded |

## Contacts

| Analytical  | Rating Desk  |
|---|--|
| Aditya Gupta<br>Vice President-Rating Operations<br>Tel: 022-49294041<br><a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a><br><br>Pradeep Singh<br>Senior Analyst-Rating Operations<br>Tel: 022-49294065<br><a href="mailto:pradeep.singh@acuite.in">pradeep.singh@acuite.in</a> | Varsha Bist<br>Senior Manager-Rating Operations<br>Tel: 022-49294011<br><a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a> |

### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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