



Press Release
SWIFT MERCHANDISE
November 16, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	31.16	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	27.60	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	58.76	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 58.76 Cr bank facilities of Swift Merchandise (SM). The outlook is '**Stable**'.

Rating Rationale

The rating assigned takes into account the experience of the management of more than two decades in the garments manufacturing industries, steady business risk profile, though the scale of operations was moderated in FY23 due to lower demand from international market. The revenue is further expected to increase in the near term as the firm is setting up a dyeing plant. The rating also derives comfort from the favourable financial risk profile of the firm marked by conservative capital structure and comfortable level of coverage indicators. The adequate liquidity position as reflected in the low utilisation of working capital limits at ~57 per cent for last six months June'23, further supports the rating. The rating however remains constrained by the working capital intensive nature of operations of the firm marked by GCA days of 135 days as on March 31, 2023. However, Acuite notes that the inventory and debtors stood at comfortable levels at an average of 35-45 days, it is only the high amount of deposits and advances given for dyeing project has elevated the GCA days. Further, the ratings factor in the vulnerability of the company's profitability to fluctuations in the foreign currency exchange rates, although the same is mitigated by the forward contracts. Acuite notes the sensitivity of revenues and profitability of the players, including SM, in the export-oriented business, to the regulatory risks such as changes in the duty structure, rate of export incentives etc.

About the Company

Incorporated in 2007, Swift Merchandise (SM) is the manufacturer and exported of knitted garments. The firm has a wide range of products available including sweater, jackets, hats, etc. The manufacturing plants are located in Vijayamangalam, Tirupur and Somanpur with 800 sewing machines, 4 printing machineries and 5 embroidery machineries. The majority of the garments (~65% in FY23) are exported to branded retail outlets in UK and US. Furthermore, the major raw material i.e. yarns and fabric is procured from the companies based out in various locations of Southern India. The partners of the company are Mr. P. Gandhi and Ms. V. Revathi.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SM to arrive at the

rating.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

The firm has a long operational track record of around one and a half decade. Further, the partners, Mr. P Gandhi and Mrs. V. Revathi has experience of over two decades in the garments manufacturing industry. Presence of more than two decades in the garment manufacturing business has enabled the partners to establish a strong clientele, comprising, Gerber Children's Wear, Next Retail Limited, Benetton India Private Limited, Puma Stores, etc. The partners regularly upgrade the product portfolio through continuous market research, which helps build tie-ups with new customers and procure repeat orders from old ones. Acuite believes that long track record of operations and extensive experience of the management shall support the business risk profile to an extent.

Moderate business risk profile

The operating income of the firm moderated to Rs.123.29 Cr in FY2023 (prov) as against Rs.153.91 Cr in FY2022 due to subdued demand from export markets during FY2023. However, the domestic sales increased to 36 per cent in FY2023 (prov) as compared to 13 per cent in FY2022, while the exports declined to 64 per cent in FY2023 (prov) as against 87 per cent in FY2022. However, the export sales have increased in the current fiscal as it stood at ~80 per cent in the 1QFY24. The firm has achieved a total sale of ~Rs.25.55 Cr in Apr'23-Jun'23. The operating margin of the firm increased to 5.60 per cent in FY2023 (prov) as against 4.07 per cent in FY2022 on account of decline in material cost. Further, on the back of improved operating margins, the PAT margin improved to 5.33 per cent in FY2023 (prov) as against 4.40 per cent in FY2022. Sustenance of operating margins while increasing its scale will remain a key monitorable.

Above Average financial risk profile

The firm's financial risk profile is marked by moderate net worth base, comfortable gearing and comfortable debt protection metrics. The tangible net worth of the firm increased to Rs.35.30 Cr as on March 31, 2023 (Prov) from Rs.18.23 Cr as on March 31, 2022, due to ploughing back of profits and infusion of unsecured loans in the form of quasi-equity. Acuite has treated unsecured loans of Rs.8.30 Cr from the partners as quasi equity as the SIDBI's sanction letter has a covenant that the firm is required to maintain an unsecured loan of Rs.8.30 Cr during the currency of the term loan. Gearing of the company improved and stood at 0.73 times as on March 31, 2023 (Prov) as against 1.61 times as on March 31, 2022. The firm is setting up a fabric dyeing plant and the scheduled date of completion of the project is September 2023, with commercial operation expected to start in October 2023. The total cost of the project is Rs.34.15 Cr which is to be funded partly through Rs.2.25 Cr from promoter's contribution, Rs.18.20 Cr from bank loan, Rs.3.70 Cr from unsecured loan and Rs.10.00 Cr from internal accruals of the firm. The financial closure has been achieved. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) improved and stood at 1.01 times as on March 31, 2023 (Prov) as against 2.81 times as on March 31, 2022. Moreover, the comfortable debt protection metrics is marked by Interest coverage Ratio of 5.04 times as on March 31, 2023 (Prov) against 5.37 times as on March 31, 2022; and Debt Service Coverage Ratio at 4.09 times as on March 31, 2023 (Prov) as against 4.29 times as on March 31, 2022. Though the debt protection metrics are expected to moderate in the near future due to the scheduled repayment of the new term loan from SIDBI, it would still continue to remain at comfortable levels. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.27 times as on March 31, 2023 (Prov) as against 0.23 times as on March 31, 2022. Acuite expects that in spite of the debt funded capex plan in the near term, the financial risk profile of the firm will be sustained backed by steady accruals.

Weaknesses

Moderate working capital management

The moderate working capital management of the firm is marked by increased GCA days of

135 days as on March 31, 2023 (prov) as against 105 days as on March 31, 2022. The increase in GCA days is mainly on account of increase in other deposits and advances given for dyeing project. However, the debtor collection period improved to 33 days as on March 31, 2023 (prov) as against 48 days as on March 31, 2022. The inventory period stood constant at 28 days as on March 31, 2023 (prov). Acuite believes that going forward the working capital management of the company will remain almost at the same level as evident from comfortable levels of inventory and debtor period.

High customer concentration risk

The company has concentration risk as its top 10 customers represents ~88% of the total revenue of the company in FY23. A single customer in US solely accounts for ~50 per cent of total sales in FY23. Any change in business dealings by these customers can have a significant impact on the topline of the company. However, the risk is somewhat mitigated by the medium-term business relationships with these customers.

Exposed to volatile raw material prices, demand trends in key export markets and forex rates

Similar to other apparel exporters, SGMPL's profitability is vulnerable to volatility in raw material prices, which have historically accounted for ~65-75% of the cost of goods sold. Further, SM's profitability is exposed to the volatility in foreign currency exchange rates as most of its revenue is dominated by exports, though partly mitigated by the hedging practice through forward contracts.

Rating Sensitivities

- Improvement in scale of operations along with sustenance of the profitability margins.
- Further elongation of working capital cycle.
- Sustenance of capital structure.

All Covenants

None.

Liquidity Position Adequate

The firm's liquidity profile is adequate marked by net cash accruals of Rs.6.92 Cr as on March 31, 2023 as against current maturities of long term debt of Rs.0.40 Cr. Further, the current ratio of the firm improved and stood at 2.56 times as on March 31, 2023 as against 1.26 times as on March 31, 2022. Moreover, the fund based limit remained utilised at ~57 per cent for last six months ended June 2023. The cash and bank balance stood at Rs.0.04 Cr as on March 31, 2023. However, the working capital intensive nature of operations of the firm is marked by increased GCA days of 135 days as on March 31, 2023 (prov) as against 105 days as on March 31, 2022. Acuite believes that going forward the company is expected to maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuite believes the outlook on SM will remain 'stable' over the medium term backed by experience of its partner and moderate business risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the firm's financial risk profile and liquidity position or further elongation in its working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	123.29	153.91
PAT	Rs. Cr.	6.57	6.77
PAT Margin	(%)	5.33	4.40
Total Debt/Tangible Net Worth	Times	0.73	1.61
PBDIT/Interest	Times	5.04	5.37

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

None.

Any other information

None.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.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.

Rating History :

Not Available

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
South Indian Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	2.56	ACUITE BB+ Stable Assigned
South Indian Bank	Not Applicable	FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A4+ Assigned
South Indian Bank	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE A4+ Assigned
South Indian Bank	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	2.60	ACUITE A4+ Assigned
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BB+ Stable Assigned
South Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.20	ACUITE BB+ Stable Assigned
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13.40	ACUITE BB+ Stable Assigned

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Sakshi Seksaria Analyst-Rating Operations Tel: 022-49294065 sakshi.seksaria@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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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