



## Press Release

### Swaraj Suiting Limited

April 04, 2023

#### Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Bank Facilities	89.10	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Long Term/ Short Term Bank Facilities	20.00	IVR BBB-/Stable/IVR A3 (IVR Triple B Minus with Stable Outlook; IVR A Three)	Assigned	Simple
Short Term Bank Facilities	0.49	IVR A3 (IVR A Three)	Assigned	Simple
<b>Total</b>	<b>109.59</b>	<b>(Rupees One hundred and nine crore and fifty-nine lakh Only)</b>		

Details of Facilities are in Annexure 1

#### Detailed Rationale

The rating assigned to the bank facilities of Swaraj Suiting Limited (SSL) draws comfort from its experienced promoters and professional management along with reputed and established customer profile with track record of repeat business and growing scale of operations with moderate profitability and moderate debt protection metrics. However, these rating strengths are partially offset by moderately leveraged capital structure, elongated operating cycle with exposure to volatility in the prices of key raw material and presence in a cyclical, fragmented and competitive denim industry.

#### Key Rating Sensitivities:

##### Upward Factors

- Significant and sustained growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.



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- Improvement in capital structure and debt coverage indicators.
- Effective working capital management with improvement in operating cycle and liquidity

### **Downward Factors**

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any further deterioration in the financial risk profile
- Any further significant rise in working capital intensity or unplanned capex leading to further deterioration in the liquidity position.





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### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

##### **Extensive experience of promoters and professional management**

The promoters of the company have been involved in the textile business for around two decades. The company mainly caters to the domestic market. The company is promoted by Mr. Mohammad Sabir Khan having experience of more than two decades in the industry. The directors are involved in the day-to-day operations of the company, handling respective functions, and are supported by a team of qualified and experienced professional management team.

##### **Reputed and established customer profile with track record of repeat business**

The company manufactures and sells its products to reputed and established domestic players including Arvind Ltd. Over the years, it has established a strong relationship with its customers.

##### **Growing scale of operations with moderate profitability**

The company has reported a Total Operating Income of Rs. 128.84 crore in FY22 which increased by 115.20% from Rs. 59.87 crore in FY21 on account of increase in sale of grey fabrics. The EBITDA improved to Rs 13.35 crore in FY22 as against Rs. 9.83 crore in FY21 though EBITDA margin declined to 10.36% in FY22 against 16.42% in FY21 mainly because of higher raw material consumption cost. The PAT of the company also improved from Rs 2.61 crore in FY21 to Rs 4.57 crore in FY22. With decline in EBITDA margin, the PAT margin has also declined marginally by 80 bps from 4.33% in FY21 to 3.53% in FY22. The GCA was Rs 8.84 crore in FY22 against Rs 6.59 crore in FY21. The company has reported PAT of Rs. 1.55 crore on total operating income of Rs. 44.85 crore in H1FY23 as against PAT of Rs. 2.11 crore on total operating income of Rs. 51.32 crore in H1FY22.

#### Key Rating Weaknesses

##### **Moderately leveraged capital structure albeit moderate debt protection metrics**



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The TNW of the company increased to Rs 60.34 crore as on March 31, 2022 from Rs.37.84 crore as on March 31, 2021 due to increase in equity share capital following proceeds received through rights issue and IPO and accretion of profits to reserves. The overall gearing of the company stood moderately leveraged at 1.22x as on March 31,2022 deteriorated from 1.11x as on March 31, 2021 mainly due to increase in debt and TOL/TNW stood at 1.34x as on March 31, 2022; improved from 1.42x as on March 31, 2021 mainly due to decline in creditors. The debt protection metrics of the company stood moderate with ICR of 4.56x in FY22 improved from 3.50x in FY21. The total debt to GCA stood at 8.36x as on March 31,2022 deteriorated from 6.36x as on March 31,2021 due to increase in debt.

### **Elongated operating cycle**

The operating cycle of the company has remained elongated at 122 days in FY22 mainly because of high inventory holding. The inventory remains high as the company stocks yarn during the year-end. Thus, on one hand, the company's profitability remains susceptible to unforeseen corrections in yarn prices, which can lead to inventory losses; on the other hand, a stable price may lead to higher carrying cost without any foreseen benefits.

### **Exposure to volatility in the prices of key raw material**

The major raw material requirement for the integrated denim manufacturing unit is cotton yarn. The profitability depends largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, etc. During the past years, the market has seen volatility in cotton yarn production due to the unstable cotton prices and inconsistent cotton yarn export policy.

### **Presence in a cyclical, fragmented and competitive denim industry**

SSL's high dependence on denim makes it susceptible to risk associated with a downturn in the denim industry. The denim industry is inherently cyclical in nature. The



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demand is directly linked to the consumption trends and disposable income levels and the general economic outlook of the country. Further, it remains vulnerable to various factors such as fluctuations in prices of cotton, crude oil, mobilisation of adequate workforce and changes in government policies for overall development of the textile industry. The textile industry, as a whole, is also highly competitive and fragmented in nature with a large number of players operating in the organised and unorganised sector. Also, entities operating in this industry have to adhere to stringent pollution control norms set by the regulatory authorities; non-compliance of which shall adversely impact operations.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

### **Liquidity – Adequate**

The liquidity of the company is adequate as the company expects sufficient cushion in its cash accruals vis-à-vis debt repayments. The company has an unencumbered cash & bank balances of Rs. 2.10 crore as on March 31, 2022 and Rs. 2.51 crore as on February 28, 2023. The average working capital utilization was ~69.25% during the 12 months period ended February 2023. The Current ratio and quick ratio of the company stood at 2.59x and 1.17x respectively as on March 31, 2022. The operating cycle improved due to decline in inventory holding period and collection period with an increase in scale of operations although stood elongated at 122 days in FY22 against 215 days in FY21.



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### About the Company

Swaraj Suiting Limited (SSL) was incorporated in 2003 as a private limited company by Mr. Mohammad Sabir Khan and Mr. Nasir Khan. The company is engaged in manufacturing of denim fabric for domestic market as well as exports the same. In March 2022, the company has listed its equity share on SME platform of NSE. Further, the company also raised funds amounting to Rs. 10.68 crore through IPO and Rs. 12.13 crore through right issue. SSL was primarily engaged in manufacturing grey/unfurnished denim fabric at its Bhilwara manufacturing plant with an installed capacity of 18 lac meter per annum. In FY21, the company planned for backward and forward integration and established another manufacturing plant at Neemuch (M.P.) with an installed capacity of approx. 22 million meters of denim fabric per annum for dyeing the undyed yarn and converting grey fabrics into finished goods.

### Financials (Standalone):

For the year ended* / as on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	59.87	128.84
EBITDA	9.83	13.35
PAT	2.61	4.57
Total Debt	41.88	73.90
Tangible Net Worth	37.84	60.34
<b>Ratios</b>		
EBITDA Margin (%)	16.42	10.36
PAT Margin (%)	4.33	3.53
Overall Gearing Ratio (x)	1.11	1.22

\*Classification as per Infomerics` standards

**Status of non-cooperation with previous CRA:** None

**Any other information:** Not Applicable

**Rating History for last three years:**





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Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Long Term Fund Based Facilities	Long Term	89.10	IVR BBB-/ Stable	--	--	--
2.	Long Term/ Short Term Bank Facilities	Long Term/ Short Term	20.00	IVR BBB- (Stable) /IVR A3	-	-	-
3.	Short Term Fund Based Facilities	Short Term	0.49	IVR A3	--	--	--

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### About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	June'29	59.10	IVR BBB-/ Stable
Cash Credit	-	-	-	30.00	IVR BBB-/ Stable
Cash Credit*	-	-	-	20.00	IVR BBB-(Stable)/IVR A3
Bank Guarantee	-	-	-	0.49	IVR A3

\* sub limit of LC with max. usance upto 180 days

**Annexure 2: List of companies considered for consolidated analysis: Not Applicable.**

**Annexure 3: Facility wise lender details** [Lender-04-04-23-SSUITING.pdf](#)

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable**

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).