



Press Release

High Spirit Commercial Ventures Private Limited (HSCVPL)

June 20th, 2024

Ratings

| Instrument / Facility | Amount (Rs. crore) | Current Ratings | Previous Ratings | Rating Action | Complexity Indicator |
|--------------------------------------|---|---|------------------|---------------|------------------------|
| Long Term Fund-Based Bank Facilities | 67.60 | IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook) | -- | Assigned | Simple |
| Long Term Bank Facilities - Proposed | 2.40 | IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook) | -- | Assigned | Simple |
| Total | Rs.70.00 (Rupees seventy crore Only) | | -- | | |

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has assigned the rating to the bank facilities of HSCVPL derive strength from sustained growth in operating income, steady improvement in gross margins and expected to improve further, moderate capital structure and debt protection metrics, diversified product base with moderate distribution network, and experienced promoters with established track record in the business. The rating is however constrained on account of elongated working capital cycle and highly fragmented and competitive industry.

Key Rating Sensitivities:

Upward Factors

Significant and sustained growth in total operating income along with achievement of EBITDA margins leading to healthy cash accruals along with sustained improvement in working capital cycle while maintaining the current credit profile.

Downward Factors

- Sustained declined in total operating income and/or declined in EBITDA margins.
- Any further deterioration in working capital cycle and/or any unplanned debt led capex leading to deterioration in credit profile.



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Sustained growth in operating income

As per provisional FY24 (refers to period April 1st, 2023, to March 31st, 2024), HSCVPL's total operating income (TOI) has improved by ~20% on year-on-year basis to Rs. 250.51 crore, led by higher capacity utilisation, geographical diversification and product diversification along with higher volume. Infomerics expects growth in total operating income is likely to sustained in the medium term with sustained demand for its products as well as geographical as well as product diversification.

Steady improvement in gross margins and expected to improve further in ethe medium term:

HSCVPL's EBITDA margin improved to 8.88% in FY24, from 7.90% in FY23, primarily due to benefits of operating leverage. During FY21-FY23, HSCVPL EBITDA margins has been impacted as it sold off its obsolete inventory which was accumulated during the COVID-19 Infomerics expects EBITDA margins are expected to improve further over FY25-FY27 due to stable demand for the product, strategic changes in product and geographies in which it operates, and the implementation of Q-commerce and E-commerce trade, which will enhance product turnover and gross profitability in the future.

Moderate capital structure and debt protection metrics

The capital structure as indicated by overall gearing ratio and TOL/TNW has remained moderate with overall gearing improved on y-o-y basis to 1.28x as of 31st March 2024 (31st March 2023: 2.19x and 3.41x respectively), due to prepayment of loans and increased in tangible net worth. TOL/TNW has also improved to 3.10x as of 31st March 2024 (31st March 2023: 3.41x). IVR expects gearing to improve further from FY25 onwards with expected improvement in profitability and no significant increase in long term debt in absence of capex plans. HSCVPL debt protection metrics remained moderate as per provisional FY24 as the interest coverage ratio stood at 2.02x as of March 2024 (improved from 1.54x as of March 2023) due to improvement in gross profitability. Total debt / GCA has improved significantly but remain high at 6.61x as of March 2024 (FY23: 19.05x).



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Diversified product and a moderate distribution network

HSCVPL is the backpack manufacturer in the Indian backpack market. The company has a diversified product mix with around 70.76% of FY24 revenues coming from backpacks, followed by duffle (9.65%), hard luggage (7.86%), soft luggage & travelling bags (7.37%), and remaining are other accessories. HSCVPL's sells its product under the brand name of "Priority" and "Traworld". In addition, the Brand is available at over 3,500 retail touch points across General Trade (GT) with 45 Distributors across the Country and 800 retail touchpoints in Modern Trade (MT) formats with all the leading MT Chains.

Experienced promoters with established track record in the business

HSCVPL's promoters have relevant and vast experience respectively in bag manufacturing industry. The longstanding track record of the HSCVPL with experience of the management has also resulted in established its brand and relationship with customers resulting in repeat orders.

Key Rating Weaknesses

Elongated working capital cycle

HSCVPL's net operating cycle remained elongated at 118 days in FY24 due to high inventory and collection days. Inventory days were high at 106 at the end of FY24 due to bulk procurement of raw materials to maintain order supply during peak season. Collection days were high at 100 at the end of FY24 due to diverse customer relationships, including modern trade, distributors, and retailers. As the majority of the FY24 revenue comes from modern trade, with varying payment terms from different customers which resulted into high collection days. Creditors days also high at 88 at the end of FY24, contributing to working capital mismatches. As a result, the company utilized around 96% of its working capital limits over the past 12 months ended.

Highly fragmented and competitive industry

HSCVPL operates in a highly fragmented bag manufacturing industry, with two-third of the market by the unorganized players with major shares of market due to low entry barriers and less capital intensity. HSCVPL has stiff competition from reputed brands like Wildcraft, VIP Industries, American Tourister, Delsey etc. and also from unorganized players, which might



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impact on the profit margins in the retail segment. However, long relationship with reputed customers will mitigate the risk to the extent.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies.](#)

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

[Criteria for assigning Rating outlook.](#)

[Policy on Default Recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)

Liquidity – Adequate

The current ratio stood at 1.13x as of 31st March 2024 (31st March 2023: 1.23x); while quick ratio remains moderate and at 0.65x as of 31st March 2024 (31st March 2023: 0.68x). HSVCPPL has cash and cash equivalent of Rs.1.45 crore as of March 31, 2024. Cash flow from operations were also positive and at Rs.43.37 crore at the end of FY24. The debt service coverage ratio (DSCR) also remained comfortable at 1.29x as per provisional FY24. IVR expect the DSCR to remain above 2x through FY25-FY27, with stable profitability and no significant repayments.

About the Company

High Spirit Commercial Ventures Private Limited (HSCVPL) was incorporated in the year 2012, under the leadership of Mr. Tushar Jain. HSCVPL is the manufacturer of the bags where the product range includes backpacks for school/college, office, travel, hiking, duffle bags, Lunch bag, file bag, soft luggage etc and hard luggage. HSCVPL sells its product under the brand name of “Priority” and “Traworld”. The brand is available at 3,500+ GT retail points with 45 distributors nationwide, and 800 MT retail points across India.



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Financials (Standalone):

(Rs. crore)

| For the year ended/ As on* | 31-03-2022 | 31-03-2023 |
|----------------------------|----------------|----------------|
| | Audited | Audited |
| Total Operating Income | 142.56 | 209.34 |
| EBITDA | 10.52 | 16.54 |
| PAT | 2.25 | 3.82 |
| Total Debt | 79.66 | 92.09 |
| Tangible Net Worth | 39.03 | 41.97 |
| EBITDA Margin (%) | 7.38 | 7.90 |
| PAT Margin (%) | 1.56 | 1.82 |
| Overall Gearing Ratio (x) | 2.04 | 2.19 |
| Interest Coverage (x) | 1.26 | 1.54 |

* As per Infomerics Standard

Status of non-cooperation with previous CRA: Nil

Any other information:

Rating History for last three years:

| Name of Instrument /Facilities | Current Ratings (Year 2024-25) | | | Rating History for the past 3 years | | |
|--------------------------------------|-----------------------------------|--------------------------------|--|---|---|---|
| | Type | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2023-24 | Date(s) & Rating(s) assigned in 2022-23 | Date(s) & Rating(s) assigned in 2021-22 |
| | | | | Date: - | Date: - | Date: - |
| Long Term Fund-Based Bank Facilities | Long Term | 67.60 | IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook) | -- | -- | -- |
| Long Term Bank Facilities - Proposed | Long Term | 2.40 | IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook) | -- | -- | -- |

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About Infomerics:



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Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|--|------------------|------------------|---------------------------------|------------------------------|--------------------------|
| Long Term Bank Facilities – Term Loan | -- | -- | March 15 th , 2030 | 2.13 | IVR BBB-/Stable |
| Long Term Bank Facilities – Term Loan | -- | -- | October 15 th , 2027 | 1.34 | IVR BBB-/Stable |
| Long Term Bank Facilities – Term Loan | -- | -- | October 15 th , 2024 | 0.63 | IVR BBB-/Stable |
| Long Term Bank Facilities – GECL | -- | -- | October 31 st , 2027 | 7.00 | IVR BBB-/Stable |
| Long Term Bank Facilities – GECL | -- | -- | March 15 th , 2028 | 2.63 | IVR BBB-/Stable |
| Long Term Bank Facilities – Machine Loan | -- | -- | October 10 th , 2027 | 0.85 | IVR BBB-/Stable |
| Long Term Bank Facilities – Machine Loan | -- | -- | October 11 th , 2028 | 1.02 | IVR BBB-/Stable |
| Long Term Bank Facilities – Cash Credit | -- | -- | Revolving | 16.00 | IVR BBB-/Stable |
| Long Term Bank Facilities – Cash Credit | -- | -- | Revolving | 19.00 | IVR BBB-/Stable |
| Long Term Bank Facilities – Cash Credit | -- | -- | Revolving | 17.00 | IVR BBB-/Stable |
| Proposed Long Term Bank Facilities | -- | -- | -- | 2.40 | IVR BBB-/Stable |

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

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-HighSpirit-june24.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.