Press Release

SKL Exports (SKL)

June 03, 2024

Ratings:

Type of Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long term fund-based bank facility - Term Loan	96.78	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Short term fund-based bank facility – PCFC	40.00	IVR A3 (IVR A Three)	Assigned	Simple
Short term fund-based bank facility – Bill discounting	17.00	IVR A3 (IVR A Three)	Assigned	Simple
Short term non-fund-based bank facility- Bill Discounting backed with LC (LCBD)	80.00	IVR A3 (IVR A Three)	Assigned	Simple
Total	**233.78 (Rupees two hundred and thirty-three crores and seventy-eight lakhs**)			

Details of facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of SKL Exports (SKL) derives strength from improving revenue trend, comfortable debt protection metrics and capital structure, improved profitability ratios, strategic capital expenditure, diversified customer base and geographical presence and experienced partners and management.

However, the rating is constrained by project execution risk, deteriorating short-term solvency ratios, susceptibility of profitability to raw material price volatility and foreign exchange rate and highly competitive nature of industry.

Key Rating Sensitivities:

Upward Factor:

- Growth in scale of business and improvement in profitability metrics with EBITDA margin more than 12% on a sustained basis
- Improvement in the current ratio to above 1x.
- Completion of project on timely basis without any cost overruns.

Downward Factor:

- Any delay in completion of the solar project
- Decline in revenue and/or profitability impacting the debt protection metrics.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Improving revenue trend

SKL has been able to grow its operating income significantly at 49.48% CAGR over past 2 years (FY21 to FY23). The operating revenue of the firm is increasing YoY from Rs. 149.23 crore in FY21 to Rs. 280.30 crore in FY22 to Rs. 333.45 crore in FY23. Growth is driven by revival in sales volume and supported by increased sales price. Based on the provisional details provided, the firm has achieved a revenue of Rs.232.98 crores in 9MFY24.

Comfortable debt protection metrics and capital structure

The interest coverage ratio and DSCR stood comfortable at 5.13x and 2.63x respectively in FY23 (3.62x and 1.44x in FY22). The capital structure stood comfortable with the long-term debt to equity at 0.29x in FY23 (FY22:0.48x) and the overall gearing ratio of the firm has significantly improved and remained comfortable at 0.80x in FY23 as against 1.72x in FY22. The TOL/TNW stands at 1.76x in FY23 (2.69 times in FY22). The overall solvency ratios have improved in the current year. The improvement in the capital structure and debt protection metrics in FY23 is due to increase in the tangible net worth in FY23 and improvement in the profitability metrics.

Improved profitability ratios

The profitability of SKL has improved in FY23. The EBITDA has improved from Rs.21.70 crore in FY22 to Rs.31.82 crore in FY23. The EBITDA margin has improved to 9.54% in FY23 as against 7.74% in FY22. This is due to improvement in the sales quantity and post covid normalization. The PAT margin has improved from 5.05% in FY22 to 7.69% in FY23. As on 9MFY24 the EBITDA margin stands at 17.66%.

Strategic capital expenditure

SKL is currently executing a greenfield project located at Sirukinar Village, Dharapuram Taluk, Tirupur District of Tamil Nadu for establishing 20MW AC solar power plant. The project site is Sirukinar, located on State Highway 83A, which serves as a link road connecting cities like Erode, Salem and Bangalore with Palani and Dharapuram. The estimated cost of the project is Rs.115.48 Crore, out of which Rs. 73.00 crore has been funded by the bank and the remaining is brought through internal accruals and unsecured loans. The proposed COD for the project is July 2024.

Diversified customer base and geographical presence

The firm has well established with its exports and domestic clientele leading to steady order flow. Because of this long-standing relation “SKL Exports” is having fair visibility in the market. The firm is having more than 10 years of relationship with majority of its customers.

Experienced partners and management

The firm is being managed by Mr. Govindsamy N who is the managing partner of the SKL, and he looks after the day-to-day business activity of the firm. He has four decades of experience in the textile industry and the other partners, management team is having minimum of 20 years of experience. Collectively, they have rich experience in the industry and were instrumental in developing the firm. Having operated in industry since years now, the management has established a strong network with suppliers and customers.

Key Rating Weaknesses

Project execution risk

The solar project is in the final stage of construction and the expected date of commencement of commercial operations is July 2024. Therefore, project implementation risk prevails. Any delay in the commercial date of operation would adversely affect future revenue and cash accruals, therefore, remains a key rating driver over the medium term.

Deteriorating short term solvency ratios

The current ratio of the firm is reducing YoY from 0.93x in FY21 to 0.67x in FY23 and standing below unity. The quick ratio is at 0.54x in FY23 reducing from 0.57x in FY22. The decline in the current ratio in FY23 is attributable to increase in the creditors and decrease in the inventory.

Susceptibility of profitability to raw material price volatility and foreign exchange rate

The garments industry's profitability margins are highly correlated with fluctuations in yarn prices. The raw material (Yarn) is sourced from the local spinning mills. The firm does not have any long-term contracts with suppliers with regards to either quantity or price. As a result, the profitability margins of the firm are susceptible to the volatility in raw material prices. Almost 94% of the total revenue is through exports in FY23 and 95% in FY22 and 99% in FY21. As the firm doesn't have any hedging towards the exports, therefore the profitability of the firm is susceptible to the foreign exchange risk.

Highly competitive nature of industry

The firm is exposed to risks such as global competition in the industry. Industry competitiveness of the Indian textile industry is very high because, there is a high threat of substitutes, higher bargaining power of buyers, highly competitive rivalry, and high threat of new entrants which limits the pricing flexibility of the players. However, the firm has been able to establish a strong presence with the quality of its products.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies]

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

[Criteria of assigning Rating Outlook]

[Policy on Default Recognition]

[Complexity level of rated instruments facilities]

Liquidity - Adequate

The liquidity of the firm is expected to remain adequate in the near to medium term with sufficient accruals. This indicates adequate degree of liquidity of the firm in meeting its obligations. The average working capital utilisation for the past twelve months ended Mar 2024 remained moderate at 53.97%. The current ratio is modest at 0.67x in FY23 as against 0.91x in FY22, this is mainly due to the reduction in the inventory and increase in the creditors in FY23. However, it is expected to improve above 1x in FY25. The operating cycle is comfortable at 35 days in FY23 as against 70 days in FY22.

About the firm

SKL Exports was established as a partnership firm in the year 2003 and is engaged in the manufacturing of hosiery garments and sale of solar and wind energy. The firm's manufacturing facility is located in Tirupur (Tamil Nadu). The firm has in-house processing facilities for knitting, dyeing, cutting, stitching and finishing. The firm has a total installed capacity of manufacturing 71000 pieces of garments in a day and producing 13MW of green energy from windmill and solar unit.

Financials (Standalone)

INR in Crore

For the year ended* As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	280.30	333.45
EBITDA	21.70	31.82
PAT	14.17	25.83

Total Debt	110.93	68.47
Tangible Net Worth	64.32	85.58
EBITDA Margin (%)	7.74	9.54
PAT Margin (%)	5.05	7.69
Overall Gearing Ratio (x)	1.72	0.80

** Classification as per Infomerics' standards*

Details of non-co-operation with any other CRA: Nil

Any other information: N.A.

Rating History for last three years:

Sr. No.	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
1.	Term Loan	Long Term	96.78*	IVR BBB-/ Stable	-	-	-
2.	PCFC	Short Term	40.00	IVR A3	-	-	-
3.	Bills discounting	Short Term	17.00	IVR A3	-	-	-
4.	Bill discounting backed with LC	Short Term	80.00	IVR A3	-	-	-

*** Rs. 52.14 crore is yet to disburse**

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About Infomerics:

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.

For more information visit www.infomerics.com.

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	-	-	-	96.78	IVR BBB-/ Stable
PCFC	-	-	-	40.00	IVR A3
Bill discounting	-	-	-	17.00	IVR A3
Bill discounting backed with LC	-	-	-	80.00	IVR A3

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-SKLExports-jun24.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