Press Release

Swaraj Suiting Limited

September 01, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Rating	Rating Action	Complexity Indicator
Long Term Bank Facilities	89.10	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Revised	Simple
Long Term/ Short Term Bank Facilities	20.00	IVR BB+/Stable/IVR A4+ (IVR Double B Plus with Stable Outlook/IVR A Four Plus)	IVR BBB-/Stable/IVR A3 (IVR Triple B Minus with Stable Outlook/ IVR A Three)	Revised	Simple
Short Term Bank Facilities	0.49	IVR A4+ (IVR A Four Plus)	IVR A3 (IVR A Three)	Revised	Simple
Total	**109.59**	**(Rupees One hundred and nine crore and fifty-nine lakh Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Swaraj Suiting Ltd. is on account of risks emanating from predominantly debt funded large size capital expenditure being undertaken by the company.

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 predominantly debt funded large size capital expenditure, 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.
- Improvement in capital structure and debt coverage indicators.
- Effective working capital management with improvement in operating cycle and liquidity
- Timely completion of ongoing capital expenditure without any cost overrun along with stabilisation of operations thereon leading to deriving of envisaged returns.

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.
- Any significant delay in execution of ongoing capital expenditure and/or any significant cost overrun.

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. 219.29 crore in FY23 against Rs. 128.84 crore in FY22. The EBITDA improved to Rs. 23.48 crore in FY23 as against Rs. 13.35 crore in FY22. Further, EBITDA margin improved to 10.70% in FY23 against 10.36% in FY22. The PAT of the company also improved from Rs 4.57 crore in FY22 to Rs 5.53 crore in FY23. Despite improvement in EBITDA margin, the PAT margin has declined by 102 bps from 3.53% in FY22 to 2.51% in FY23 due to increase in depreciation and interest expenses. The GCA increased to Rs 14.04 crore in FY23 against Rs 8.84 crore in FY22.

Key Rating Weaknesses

Predominantly debt funded large size capital expenditure.

The company has undertaken a project for setting up a weaving plant and Capacity expansion of existing Denim processing plant and setting up spinning unit at Neemuch, Madhya Pradesh. The total project cost stood at Rs. 213.74 crore which will be funded through term loan of Rs. 146.61 crore, unsecured loan from promoters of Rs. 25.00 crore and the remaining Rs. 42.13 crore through equity issue/internal accrual. Total cost incurred till July 31, 2023, stood at Rs. 32.79 crore towards the project, which is funded through preference share of Rs. 10.00 crore, share warrant amounting to Rs. 8.79 crore and internal accrual of Rs. 14.00 crore. The company has received bank sanction for the entire term loan facilities for part-funding the project. The project is being installed in two phases i.e., Phase I being the weaving and dyeing plant and Phase II being the spinning plant. According to the management, Phase I is expected to be completed by January 2024 and Phase II is expected to be completed by July-September 2024. However, the magnitude of said capital expenditure is very high as compared to present scale of operations of the company. Further, the risks related to project implementation and stabilisation of operations post-completion of the said capital expenditure persist.

Moderately leveraged capital structure albeit moderate debt protection metrics

The capital structure of the company stood moderately leveraged with TNW (including quasi equity) of Rs 75.27 crore as on March 31, 2023, improving from Rs. 60.34 crore as on March 31, 2022, due to accretion of profits to reserves as well as due to consideration of unsecured loans to the tune of Rs.8.80 crore as on March 31, 2023, as quasi-equity as the same are subordinate to bank debt. The overall gearing of the company stood moderately leveraged at 1.39x as on March 31,2023 moderated from 1.22x as on March 31, 2022, mainly due to increase in debt and TOL/TNW stood at 2.06x as on March 31, 2023, deteriorated from 1.34x as on March 31, 2022, mainly due to increase in creditors and increase in utilization of working capital bank borrowings. The debt protection metrics of the company stood moderate with ICR of 2.72x in FY23 deteriorated from 4.56x in FY22. The total debt to GCA stood at 7.45x as on March 31,2023 improved from 8.36x as on March 31,2022 due to increase in GCA.

Elongated operating cycle.

The operating cycle of the company has remained elongated at 112 days in FY23. 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 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. 2.51 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 1.25x and 0.62x respectively as on March 31, 2023. The operating cycle improved due to decline in inventory holding period with an increase in scale of operations although stood elongated at 112 days in FY23 against 122 days in FY22.

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):

(Rs. Crore)

For the year ended* / as on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	128.84	219.29
EBITDA	13.35	23.48
PAT	4.57	5.53
Total Debt	73.90	104.60
Tangible Net Worth (incl. quasi-equity)	60.34	75.27
Ratios		
EBITDA Margin (%)	10.36	10.70
PAT Margin (%)	3.53	2.51
Overall Gearing Ratio (x) (incl. quasi-equity)	1.22	1.39

**Classification as per Infomerics` standards*

Status of non-cooperation with previous CRA: Brickwork Ratings has moved the rating of SSL under the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated August 10, 2023.

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (April 04, 2023)	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 BB+/ Stable	IVR BBB-/ Stable	--	--
2.	Long Term/ Short Term Bank Facilities	Long Term/ Short Term	20.00	IVR BB+(Stable)/ IVR A4+	IVR BBB- (Stable)/IVR A3	-	-
3.	Short Term Fund Based Facilities	Short Term	0.49	IVR A4+	IVR A3	--	--

Name and Contact Details of the Rating Analyst:

Name: Harsh Raj Sankhla Tel: (011) 45579024 Email: harshraj.sankhla@infomerics.com

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.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not 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 BB+/ Stable
Cash Credit	-	-	-	30.00	IVR BB+/ Stable
Cash Credit*	-	-	-	20.00	IVR BB+ (Stable)/IVR A4+
Bank Guarantee	-	-	-	0.49	IVR A4+

* *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

https://www.infomerics.com/admin/prfiles/len-Swaraj-sep23.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.