

Sportking INDIA LTD.

(Govt. Recognised Three Star Export House)

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SIL/2022-23/SE

17.09.2022

To BSE Limited Phiroze Jeeheebhoy Towers, Dalal Street, Mumbai-400001	To National Stock Exchange of India Ltd, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai- 400051
Script Code: 539221	Symbol: SPORTKING

Sub: Intimation for reaffirmation of Bank Loan External Credit Rating at Crisil A/Stable (Long Term) and Crisil A1 (Short Term)

Dear Sir/ Madam,

Pursuant to the Regulation 30 read along with schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015 we wish to inform that, Rating Committee of CRISIL Ratings Limited after due consideration, has reaffirmed the bank loan external credit rating of the Company for total debt of Rs.835 crores (enhanced from Rs.600 crores) as per the details given below:

Sr No	Name of the Facility	Amount (Rs in Crs)	Rating
1.	Long Term Rating	771.00	CRISIL A/Stable
2.	Short Term Rating	64.00	CRISIL A1
	Total	835.00	

The copy of Rating Rational dated 16.09.2022 uploaded by Crisil on their website enclosed. You are requested to please take the same on your records.

Yours truly,

For SPORTKING INDIA LIMITED

LOVLESH VERMA
COMPANY SECRETARY
(ACS: 34171)

Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

September 16, 2022 | Mumbai

Sportking India Limited

Rated amount enhanced

Rating Action

Total Bank Loan Facilities Rated	Rs.835 Crore (Enhanced from Rs.600 Crore)
Long Term Rating	CRISIL A/Stable (Reaffirmed)
Short Term Rating	CRISIL A1 (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its ratings at 'CRISIL A/Stable/CRISIL A1' on the bank facilities of Sportking India Limited (Sportking)

During first quarter of fiscal 2023 company witnessed revenue growth of 35% on y-o-y basis due to low base as the corresponding quarter was impacted by COVID-19 second wave. Operating margins though declined to 22.3% in Q1FY23 from highs of 27.8% witnessed in Q1FY22 due to compression in cotton yarn spread. Slowdown in demand and compression in cotton yarn spread are expected to impact the performance in the Q2 of fiscal 2023, but some improvement is expected in the second half of this fiscal.

CRISIL Ratings has noted company is undertaking additional capacity expansion of 63072 crore for Rs 315 crore (including 10 MW solar capacity expansion) to be funded by debt of Rs 220 crore and expected to be completed by end of fiscal 2023. Ongoing capacity expansion of 40,800 spindles of Rs 175 crore funded by Rs 125 crore debt is expected to achieve COD by end of September'22. Timely execution of the capex within the budgeted cost and ramp-up in operations will be key monitorables. Any additional large, debt-funded capex will also be a key rating sensitivity factor.

The financial risk profile remains healthy backed by comfortable gearing and satisfactory debt protection metrics, indicated by interest coverage ratio of 22 times for fiscal 2022 and is expected to moderate from fiscal 2022 levels due to debt funded capex planned in fiscal 2023, however expected to remain healthy. Working capital requirement will remain high due to increased raw material prices, however higher accruals will reduce dependence on external working capital debt.

The ratings continue to reflect the company's strong position in the compact cotton yarn industry, large scale of operations and healthy financial risk profile. These strengths are partially offset by susceptibility to volatility in raw material prices & foreign exchange (forex) rates and large working capital requirements.

Analytical Approach

Preference capital has been treated as an equity due to low coupon rate and no redemption in the medium term.

Key Rating Drivers & Detailed Description

Strengths:

- **Strong position in the cotton yarn industry**

Sportking has a strong market position in the compact cotton yarn industry, with total spindle capacity of 2.75 lakh and revenue of over Rs 2,100 crore in fiscal 2022. The company benefits from its diversified geographic reach—it has established a strong position in several export markets, such as Bangladesh, China, Egypt and the US, and has longstanding relationships with international garment retailers in the US and Europe. In fiscal 2022, export demand improved with increased competitiveness of Indian spinners on account of lower domestic cotton prices compared with global prices and supply disruptions amid the pandemic. The company's performance is likely to remain stronger than the historical trend on account of structural changes in the export market.

- **Large scale of operations and healthy operating efficiency**

The company consumes about 4 lakhs bales of cotton every year (will increase to 6 lakh bales after expansion) and is, therefore, one of the largest buyers of cotton in India. The large scale of procurement will keep its bargaining power high over the medium term. The company is looking to de-risk its exposure to basic cotton yarn products and focus on value-added yarns, such as contamination-free cotton yarn, sustainable cotton yarn and multi-twist cotton yarn, which fetch higher margins.

Sportking had healthy capacity utilisation of over 95% in the past three years, and is adding 40,800 spindles, to be commissioned by September 2022, and plans to add 63,072 more spindles, to be commissioned by March 2023. This should strengthen its business risk profile.

It is expected that operating margins remains better than historical trends due to improved spreads however will moderate from peak levels of fiscal 2022 owing to compression in cotton yarn spread

• **Improving and healthy financial risk profile**

The total outside liabilities to tangible network (TOLTNW) ratio is expected to improve to less than 1 time over the medium term despite additional term debt for capex. Adjusted interest coverage ratio is over 15 times in fiscal 2022 because of increase in profitability and is expected at above 8 times in fiscal 2023, driven by better spreads between prices of raw cotton and cotton/ synthetic yarn and healthy capacity utilisation.

Financial flexibility is healthy, as reflected in moderate bank limit utilisation. Adequate liquidity and comfortable financial flexibility will continue to support debt servicing. Larger-than-expected, debt-funded capex or dividend payout, resulting in a weaker capital structure, will remain a key monitorable.

Weaknesses:

• **Susceptibility to volatility in raw material prices and forex rates**

The company derives over 90% of its revenue from yarn, which is susceptible to volatility in cotton and cotton yarn prices. As a result, the operating margin fluctuated between 10% and 28% over the 10 years through fiscal 2022. Demand for cotton and yarn is driven by international demand-supply dynamics. In the past decade, the industry has seen five cycles (fiscals 2012, 2015, 2018, 2020 and 2021) where demand spiralled and then fell rapidly. Additionally, as Sportking derives close to half of its revenue from overseas, it is susceptible to fluctuations in forex rates, which is mitigated through foreign exchange forward contracts/working capital limits in foreign currency.

• **Large working capital requirement**

Operations are working capital intensive, as reflected in gross current assets estimated at around 165 days as on March 31, 2022, driven by stocking of raw cotton bales being a seasonal product leading to high reliance on debt. On account of high investment in inventory and debtors, working capital loan remains sizeable

Liquidity: Strong

Unutilised bank lines stood at ~Rs 300 crore as of June'2022 (bank limit utilisation averaged 55% over the 12 months ended June 2022). Net cash accrual, expected over Rs 200 crores in next 2 fiscal years which will be sufficient to cover debt obligation of Rs 40-60 crores in next 2 years and capex plan

Outlook: Stable

Sportking will, over the medium term, maintain its strong market position and continue to benefit from the favourable outlook on the cotton yarn industry.

Rating Sensitivity factors

Upward factors

- Significant improvement in scale of operations along with operating margin sustaining over 20%
- Improved cash generation, efficient working capital management and prudent funding of capex benefitting debt metrics – for instance TOL/TNW remaining below 1 time and interest cover of above 8 times

Downward factors

- Weak operating performance resulting in EBIDTA margin/s lower than 14% on sustained basis
- Weakened cash generation, along with elongation in working capital cycle and increased capex impacting debt metrics; for instance TOL/TNW increasing over 2 times.

About the Company

Sportking, incorporated in February 1989, is a part of the Sportking Group. The company manufactures cotton, synthetic and blended yarn in counts ranging from 20s to 46s. It has manufacturing units in Ludhiana and Bathinda, both in Punjab. The company has large size capacity of 2.75 lakh spindles and dyeing capacity of 20 tonne per day and capacity is being increased to 3.75 lakhs+ spindles by the end of fiscal 2023. It manufactures value-added yarns, such as compact, sustainable and contamination-free cotton yarn, which provide higher realisations than normal cotton yarn.

For the three months ended June 30, 2022, the company reported profit after tax of Rs 83 crore and operating income of Rs 606 crore compared with Rs 79 crore and Rs 450 crore, respectively, for the corresponding period of the previous fiscal.

Key Financial Indicators

As on / for the period ended March 31		2022	2021
Revenue	Rs crore	2178	1308
Profit after tax (PAT)	Rs crore	409	85
PAT margin	%	18.8	6.5
Adjusted debt/adjusted network	Times	0.70	1.56
Interest coverage	Times	21.69	6.0

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs crore)	Complexity Level	Rating Assigned with Outlook
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	6.58	NA	CRISIL A/Stable
NA	Cash Credit*	NA	NA	NA	50.00	NA	CRISIL A/Stable
NA	Cash Credit*	NA	NA	NA	175.00	NA	CRISIL A/Stable
NA	Cash Credit*	NA	NA	NA	50.00	NA	CRISIL A/Stable
NA	Foreign Exchange Forward [^]	NA	NA	NA	25.57	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	30-Sep-27	68.75	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	30-Jun-27	33.75	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-Mar-28	13.45	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-Mar-31	62.00	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-Mar-31	63.00	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	30-Sep-31	55.00	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	30-Sep-31	110.00	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	30-Sep-31	55.00	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-Dec-24	2.9	NA	CRISIL A/Stable
NA	Letter of Credit	NA	NA	NA	64.00	NA	CRISIL A1

*Interchangeable with packing credit/packing credit in foreign currency

[^]forward derivative limit

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	771.0	CRISIL A/Stable	25-04-22	CRISIL A1 / CRISIL A/Stable	02-08-21	CRISIL A2+ / CRISIL A/Stable		--		--	--
Non-Fund Based Facilities	ST	64.0	CRISIL A1	25-04-22	CRISIL A1	02-08-21	CRISIL A2+		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit*	50	Punjab National Bank	CRISIL A/Stable
Cash Credit*	50	Union Bank of India	CRISIL A/Stable
Cash Credit*	175	State Bank of India	CRISIL A/Stable
Foreign Exchange Forward [^]	25.57	State Bank of India	CRISIL A/Stable
Letter of Credit	15	Punjab National Bank	CRISIL A1
Letter of Credit	10	Union Bank of India	CRISIL A1
Letter of Credit	39	State Bank of India	CRISIL A1
Proposed Long Term Bank Loan Facility	1.58	Not Applicable	CRISIL A/Stable
Proposed Long Term Bank Loan Facility	5	Not Applicable	CRISIL A/Stable
Term Loan	110	Indian Bank	CRISIL A/Stable
Term Loan	33.75	Union Bank of India	CRISIL A/Stable
Term Loan	63	Union Bank of India	CRISIL A/Stable
Term Loan	55	Union Bank of India	CRISIL A/Stable
Term Loan	68.75	State Bank of India	CRISIL A/Stable

Term Loan	13.45	Central Bank Of India	CRISIL A/Stable
Term Loan	62	Indian Bank	CRISIL A/Stable
Term Loan	2.9	Punjab National Bank	CRISIL A/Stable
Term Loan	55	Export Import Bank of India	CRISIL A/Stable

This Annexure has been updated on 16-Sep-22 in line with the lender-wise facility details as on 16-Sep-22 received from the rated entity.

*Interchangeable with packing credit/packing credit in foreign currency

^forward derivative limit

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Cotton Textile Industry
CRISILs Criteria for rating short term debt

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