

Sportking INDIA LTD.

(Govt. Recognised Three Star Export House)

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SIL/2023-24/SE

Date: 07.06.2023

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

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 has reaffirmed the bank loan external credit rating of the Company for total debt of Rs.835 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 06.06.2023 enclosed, you are requested to please take the same on your records.

Yours truly,
For SPORTKING INDIA LIMITED

LOVLESH VERMA
COMPANY SECRETARY
(ACS: 34171)

Rating Rationale

June 06, 2023 | Mumbai

Sportking India Limited

Ratings reaffirmed at 'CRISIL A/Stable/CRISIL A1'

Rating Action

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

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

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

Revenue is expected to grow by 5-6% in fiscal 2024, driven by nearly 20% rise in volume. The company has expanded its current capacity by almost 35% in fiscal 2023. The first phase of the capital expenditure (capex) that entailed addition of 40,800 spindles became operational in the second half of fiscal 2023. The second phase of 63,072 spindles commenced production towards end of fiscal 2023. With total of 234 MT/day capacity, the company should reach an average utilisation of 90-95% and derive nearly 20% growth in volume. High utilisation levels will be driven by healthy downstream demand, reducing inventory with retailers and increased demand from fabric makers, with easing of raw material prices. Other conducive factors include increased demand from China with reopening of the economy, and enhanced competitiveness of domestic cotton yarn, with Pakistan experiencing a lower cotton crop yield. Prices may decline by 15% in this cotton season, owing to a higher yield in fiscal 2024 over the previous fiscal.

Operating margin may normalize from to nearly 12% in this fiscal from 12.6% in fiscal 2023 as the company reported high profit in first quarter of the previous fiscal on account of elevated cotton yarn spreads. As the differential between prices of cotton yarn and cotton (cotton yarn spreads) normalise this fiscal, the margin will reduce, but will remain healthy, at levels similar to the pre-Covid era. Operating margin is likely to improve in the medium term with cost savings from solar power projects undertaken by the company.

The financial risk profile remains healthy, backed by a comfortable gearing and satisfactory debt protection metrics. Small capex being incurred this fiscal to set up a solar plant, and higher procurement of inventory in the next cotton season may increase long and short-term debt in fiscal 2024. Resultantly, gearing may go up to 0.68 time as on March 31, 2024 from 0.57 time as on March 31, 2023, due to the buyback of shares, yet it will remain below 0.6 time in the medium term. Interest coverage ratio, though likely to normalise from 12.1 times in fiscal 2023 to 8.5-9 times in fiscal 2024, will be higher than that seen pre-Covid. Working capital requirement will remain high given the nature of business. However, higher cash accrual will reduce dependence on external working capital debt in the medium term.

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

Analytical Approach

Preference capital has been treated as an equity due to a 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 expanded to 3.79 lakh and revenue of over Rs 2,205 crore in fiscal 2023. The company benefits from its diversified geographic reach across several markets such as Bangladesh, China, Egypt and the US, and its longstanding relationships with garment retailers in the US and Europe. In fiscal 2024, overseas demand is expected to improve as Indian spinners have become more competitive on account of a better cotton yield over the previous fiscal, and a lower cotton yield in Pakistan. Structural changes in overseas markets, such as the China+1 strategy, will also favour players like Sportking.

Large scale of operations and healthy operating efficiency

Post the expansion, Sportking will consume about 6 lakhs bales of cotton every year and thus become one of the largest buyers of cotton in India. 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, by focusing on value-added products such as contamination-free, sustainable and multi-twist cotton yarn, which fetch higher margin.

Healthy capacity utilisation of nearly 95%, following addition of 40,800 spindles in September 2022 and 63,072 spindles in March 2023, should strengthen the business risk profile.

Operating margin should fare better than historical trends due to improved spreads but will moderate from peak levels of fiscal 2022 owing to compression in spreads.

Improving and healthy financial risk profile

The financial risk profile remains healthy, backed by a comfortable gearing and satisfactory debt protection metrics. Small capex being incurred to set up a solar plant, and higher procurement of inventory in the next cotton season may increase long and short-term debt in fiscal 2024. Resultantly, gearing may go up to 0.68 time as on March 31, 2024, from 0.57 time as on March 31, 2023, due to the buyback of shares, yet it will remain below 0.6 time in the medium term. Interest coverage ratio, though likely to normalise from 12.1 times in fiscal 2023 to 8.5-9 times in fiscal 2024, will be higher than that seen pre-Covid. Working capital requirement will remain high given the nature of business. However, higher cash accrual will reduce dependence on external working capital debt in the medium term.

Financial flexibility is healthy, as reflected in low bank limit utilisation. This, coupled with adequate liquidity, 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 revenue from yarn and thus remains susceptible to volatility in prices of cotton and cotton yarn. As a result, the operating margin has fluctuated between 10% and 28% over the 10 years through fiscal 2023. 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 spiraled and then fell rapidly. Additionally, as Sportking derives close to half of its revenue from exports, it also remains exposed to fluctuations in forex rates. This risk is mitigated via foreign exchange forward contracts or working capital limits in foreign currency.

Large working capital requirement

Gross current assets are high estimated around 131 days as on March 31, 2023, driven by large inventory and receivables. The company maintains a sizeable stock of raw cotton bales, which are procured on a seasonal basis. Hence, there is higher reliance on working capital debt.

Liquidity: Strong

Liquidity is marked by sufficient cash accrual of over Rs 200 crore and negligible bank limit utilisation. Expected cash accrual of over Rs 200 crore in the next two fiscals will comfortably cover the term debt obligation of Rs 40-80 crore and the planned capital expenditure for the next two fiscals. Bank limit of around Rs 350 crore averaged 15% over the 12 months ended March 31, 2023.

Outlook: Stable

Sportking will maintain its strong market position and continue to benefit from its increased scale of operations over the medium term.

Rating Sensitivity factors

Upward factors

- Significant improvement in scale of operations along with cash accruals sustaining above Rs. 200-250 crore
- Improved cash generation, efficient working capital management and prudent funding of capex, benefitting debt metrics – for instance, total outside liabilities to tangible networth ratio remaining below one time and interest cover above 6-8 times

Downward factors

- Weak operating performance resulting in cash accrual of Rs 100-125 crore
- Weakened cash generation, along with elongation in working capital cycle and increased capex impacting debt metrics; for instance TOL/TNW increasing to 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 a large capacity of 3.79 lakh spindles and dyeing capacity of 20 tonne per day. It manufactures value-added yarns, such as compact, sustainable and contamination-free cotton yarn, which provide higher realisations than normal cotton yarn.

Key Financial Indicators

As on / for the period ended March 31		2023	2022
Revenue	Rs crore	2205	2154
Profit after tax (PAT)	Rs crore	132	409
PAT margin	%	6.0	19.0
Adjusted debt/adjusted networth	Times	0.57	0.70
Interest coverage	Times	12.10	20.84

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Cash Credit*	NA	NA	NA	50	NA	CRISIL A/Stable
NA	Cash Credit*	NA	NA	NA	175	NA	CRISIL A/Stable
NA	Cash Credit*	NA	NA	NA	50	NA	CRISIL A/Stable
NA	Foreign Exchange Forward^	NA	NA	NA	25.57	NA	CRISIL A/Stable
NA	Letter of Credit	NA	NA	NA	64	NA	CRISIL A1
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	2.01	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	30-Sep-27	61.39	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	30-Jun-27	30	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-Mar-28	11.93	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-Mar-31	58.6	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-Mar-31	46.5	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	30-Sep-31	55	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	30-Sep-31	110	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	30-Sep-31	55	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	31-Mar-29	40	NA	CRISIL A/Stable

*Interchangeable with packing credit/packing credit in foreign currency

^forward derivative limit

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	771.0	CRISIL A/Stable		--	16-09-22	CRISIL A/Stable	02-08-21	CRISIL A2+ / CRISIL A-/Stable		--	--
			--		--	25-04-22	CRISIL A1 / CRISIL A/Stable		--		--	--
Non-Fund Based Facilities	ST	64.0	CRISIL A1		--	16-09-22	CRISIL A1	02-08-21	CRISIL A2+		--	--
			--		--	25-04-22	CRISIL A1		--		--	--

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	2.01	Not Applicable	CRISIL A/Stable
Term Loan	40	Punjab National Bank	CRISIL A/Stable
Term Loan	55	Export Import Bank of India	CRISIL A/Stable

Term Loan	110	Indian Bank	CRISIL A/Stable
Term Loan	30	Union Bank of India	CRISIL A/Stable
Term Loan	46.5	Union Bank of India	CRISIL A/Stable
Term Loan	55	Union Bank of India	CRISIL A/Stable
Term Loan	61.39	State Bank of India	CRISIL A/Stable
Term Loan	11.93	Central Bank Of India	CRISIL A/Stable
Term Loan	58.6	Indian Bank	CRISIL A/Stable

*This Annexure has been updated on 06-June-23 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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