

Sportking INDIA LTD.

(Govt. Recognised Four Star Export House)

Regd. & Corporate Office : Vill. Kanech, Near Sahnewal, G.T. Road, Ludhiana-141120 Ph. (0161) 2845456 to 60 Fax : 2845458
Admn. Office : 178, Col. Gurdial Singh Road, Civil Lines, Ludhiana-141001 Ph. (0161) 2770954 to 55 Fax : 2770953
E-mail : sportking@sportking.co.in CIN No. L17122PB1989PLC053162
Website : www.sportking.co.in GST No.: 03AAACS3037Q1ZA

SIL/2024-25/SE

Date: 07.08.2024

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

Subject: Intimation of Credit Rating under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform you that the CRISIL Ratings Limited has assigned the rating as under in respect of the Company's banking facilities:

Facilities/Instruments	Amount (Rs in Crs)	Rating	Rating Action
Long-term bank facilities	935.00	CRISIL A/Positive	Ratings outlook revised from Stable to 'Positive'; Ratings reaffirmed
Short -term bank facilities	65.00	CRISIL A1	Ratings Reaffirmed
Total	1000.00		

The copy of Rating Rational uploaded by Crisil on their website enclosed. You are requested to take the above mentioned information on your records.

Yours truly,

For SPORTKING INDIA LIMITED

LOVLESH VERMA

COMPANY SECRETARY
(ACS: 34171)

Rating Rationale

August 07, 2024 | Mumbai

Sportking India Limited

Rating outlook revised to 'Positive'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.1000 Crore
Long Term Rating	CRISIL A/Positive (Outlook revised from 'Stable'; Rating 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 revised its outlook on the long-term bank facilities of Sportking India Ltd (Sportking; part of Sportking group) to '**Positive**' from 'Stable' and reaffirmed the rating at '**CRISIL A**'. The rating on the short-term facilities has also been reaffirmed at 'CRISIL A1'.

The change in outlook reflects the improvement in the business risk profile of Sportking due to the strengthening of market position in the compact cotton yarn industry. This is due to a full year of near-full capacity utilisation resulting in volumes growing by 32% on year in fiscal 2024 post capacity addition. Sportking showcased increase in scale, along with healthy operating efficiency and comfortable financial risk profile, despite the impact on the industry last fiscal. Although the company did not meet the rating sensitivity factors set by CRISIL Ratings due to the adverse impact on the industry last fiscal, Sportking's resilient and improving performance has been factored in the change in outlook.

Revenue in fiscal 2025 is estimated to remain similar to that in fiscal 2024 at Rs 2400-2450 crore owing to continued full utilisation of capacity with healthy demand from downstream segments and stable cotton and cotton yarn prices. In the first quarter of fiscal 2025, Sportking has already reported operating income of Rs 634 crore. This revenue growth will be on the back of 9% increase in operating income in fiscal 2024, due to the 32% increase in volume and 19% degrowth in realisation. Expansion in capacity by almost 35% by the end of fiscal 2023 has resulted in 32% increase in volume sales for fiscal 2024. On the other hand, prices declined, owing to higher availability of cotton in fiscal 2024 over the previous fiscal.

Operating margin is expected to remain at 10-12% over the medium term, higher than the 10% achieved last year. This is due to cost savings from solar power projects undertaken by the company and a reduction in the inventory losses experienced in the first half of the previous fiscal, as the industry stabilises. Operating margin stood at 11.7% in the first quarter of fiscal 2025.

The financial risk profile remains healthy, backed by comfortable gearing and moderate debt protection metrics. The debt levels though had increased in fiscal 2024 to Rs 920 crore from Rs 477 crore in fiscal 2023 mainly due to debt funded capital expenditure (capex) for solar plant and increase in short term debt due to inventory reverting to normal levels. However, debt is expected to reduce to Rs 700-800 crore in fiscal 2025 in the absence of major capex and utilisation of cash accruals for working capital needs. The interest coverage and net cash accrual to adjusted debt (NCAAD) ratios are expected to improve to 4.2-4.3 times and 0.20 time, respectively, in the medium term from 4.08 times and 0.17 time, respectively, in fiscal 2024. Moreover, gearing and total outside liabilities to tangible networth (TOLTNW) ratios are also likely to improve from 1.01 and 1.16 times, respectively, as on March 31, 2024 to below 0.8 and 0.9 time, respectively, in the medium term.

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 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 operating income of over Rs 2,413 crore in fiscal 2024. 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 2025, overseas demand is expected to improve as Indian spinners have become more competitive on account of domestic cotton prices remaining below international prices. Structural changes in overseas markets, such as the China+1 strategy, will also favour players such as Sportking.
- **Large scale of operations and healthy operating efficiency:** Post expansion, Sportking has demonstrated capacity utilisation of ~90% resulting in sales volume growth of ~32%. 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.

Operating margin should fare better than historical trends due to stable cotton prices resulting in reduced inventory prices.

- **Improving and healthy financial risk profile:** The financial risk profile remains healthy, backed by comfortable gearing and satisfactory debt protection metrics. The debt levels though had increased in fiscal 2024 to Rs 920 crore from Rs 477 crore in fiscal 2023 mainly due to debt funded capex for solar plant and increase in short term debt due to inventory reverting to normal levels. However, debt is expected to reduce to Rs 700-800 crore in fiscal 2025 in the absence of major capex and utilisation of cash accruals for working capital needs. The interest coverage and NCAAD ratios are expected to improve to 4.2-4.3 times and 0.20 time, respectively, in the medium term from 4.08 times and 0.17 time, respectively, in fiscal 2024. Moreover, gearing and TOLTNW ratios are also likely to improve from 1.01 and 1.16 times, respectively, as on March 31, 2024 to below 0.8 and 0.9 time, respectively, in the medium term.

Financial flexibility is healthy, as reflected in moderate 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 its revenue from yarn and thus remains susceptible to volatility in the prices of cotton and cotton yarn. As a result, operating margin has fluctuated between 10% and 28% over the 10 fiscals through 2024. 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 forex forward contracts or working capital limits in foreign currency.
- **Large working capital requirement:** Gross current assets are high estimated around 178 days as on March 31, 2024, driven by large inventory and receivables. The company maintains a sizeable stock of raw cotton bales, which are procured seasonally. Hence, there is higher reliance on working capital debt.

Liquidity: Strong

Liquidity is marked by sufficient annual cash accrual of Rs 160-180 crore and moderate bank limit utilisation. With no major capex expected, cash accrual of over Rs 160 crore per annum in the next two fiscals will comfortably cover the term debt obligation of Rs 60-80 crore. Utilisation of bank limit of Rs 460 crore averaged 52% over the 12 months ended March 2024.

Outlook: Positive

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

Rating Sensitivity factors**Upward factors**

- Stable revenue along with healthy operating profitability of 10-12%, thereby improving business risk profile
- Increased cash generation, efficient working capital management and prudent funding of capex, strongly improving debt metrics

Downward factors

- Weak operating performance resulting in operating profitability of 7-8% on a sustained basis
- Weakened cash generation, along with elongation in working capital cycle and increased capex impacting debt metrics

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 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		2024	2023
Revenue	Rs crore	2413	2205
Profit after tax (PAT)	Rs crore	70	132
PAT margin	%	2.9	6.0
Adjusted debt/adjusted networkth	Times	1.01	0.57
Interest coverage	Times	4.08	12.10

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.Cr)	Complexity Levels	Rating Assigned with Outlook
NA	Term loan	NA	NA	31-Mar-2029	35.3	NA	CRISIL A/Positive
NA	Term loan	NA	NA	30-Sep-2031	49.2	NA	CRISIL A/Positive
NA	Cash credit*	NA	NA	NA	460	NA	CRISIL A/Positive
NA	Foreign exchange forward^	NA	NA	NA	38.81	NA	CRISIL A/Positive
NA	Term loan	NA	NA	30-Sep-2027	54.3	NA	CRISIL A/Positive
NA	Term loan	NA	NA	30-Jun-2027	25.4	NA	CRISIL A/Positive
NA	Term loan	NA	NA	31-Mar-2031	37.5	NA	CRISIL A/Positive
NA	Term loan	NA	NA	30-Sep-2031	47.4	NA	CRISIL A/Positive
NA	Term loan	NA	NA	31-Mar-2028	8.35	NA	CRISIL A/Positive
NA	Term loan	NA	NA	31-Mar-2031	46.45	NA	CRISIL A/Positive
NA	Letter of credit	NA	NA	NA	65	NA	CRISIL A1
NA	Term loan	NA	NA	30-Sep-2031	94.5	NA	CRISIL A/Positive
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	37.79	NA	CRISIL A/Positive

*Interchangeable with packing credit/packing credit in foreign currency

^forward derivative limit

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2024 (History)		2023		2022		2021		Start of 2021
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	935.0	CRISIL A/Positive	13-02-24	CRISIL A/Stable	30-08-23	CRISIL A/Stable	16-09-22	CRISIL A/Stable	02-08-21	CRISIL A2+ / CRISIL A-/Stable	--
						06-06-23	CRISIL A/Stable	25-04-22	CRISIL A1 /	--	--	

									CRISIL A/Stable			
Non-Fund Based Facilities	ST	65.0	CRISIL A1	13-02-24	CRISIL A1	30-08-23	CRISIL A1	16-09-22	CRISIL A1	02-08-21	CRISIL A2+	--
			--		--	06-06-23	CRISIL A1	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*	95	Punjab National Bank	CRISIL A/Positive
Cash Credit*	50	Union Bank of India	CRISIL A/Positive
Cash Credit*	295	State Bank of India	CRISIL A/Positive
Cash Credit*	20	YES Bank Limited	CRISIL A/Positive
Foreign Exchange Forward [^]	4.2	Punjab National Bank	CRISIL A/Positive
Foreign Exchange Forward [^]	34.61	State Bank of India	CRISIL A/Positive
Letter of Credit	40	State Bank of India	CRISIL A1
Letter of Credit	10	Union Bank of India	CRISIL A1
Letter of Credit	15	Punjab National Bank	CRISIL A1
Proposed Long Term Bank Loan Facility	37.79	Not Applicable	CRISIL A/Positive
Term Loan	49.2	Indian Bank	CRISIL A/Positive
Term Loan	94.5	Indian Bank	CRISIL A/Positive
Term Loan	35.3	Punjab National Bank	CRISIL A/Positive
Term Loan	25.4	Union Bank of India	CRISIL A/Positive
Term Loan	37.5	Union Bank of India	CRISIL A/Positive
Term Loan	47.4	Union Bank of India	CRISIL A/Positive
Term Loan	46.45	Export Import Bank of India	CRISIL A/Positive
Term Loan	54.3	State Bank of India	CRISIL A/Positive
Term Loan	8.35	Central Bank Of India	CRISIL A/Positive

*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

Media Relations	Analytical Contacts	Customer Service Helpdesk
Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com	Mohit Makhija Senior Director CRISIL Ratings Limited B: +91 124 672 2000 mohit.makhija@crisil.com Gautam Shahi	Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries:

Rutuja Gaikwad
Media Relations
CRISIL Limited
B: +91 22 3342 3000
Rutuja.Gaikwad@ext-crisil.com

Director
CRISIL Ratings Limited
B: +91 124 672 2000
gautam.shahi@crisil.com

ratingsinvestordesks@crisil.com

Kunal Kumar
Rating Analyst
CRISIL Ratings Limited
B: +91 124 672 2000
Kunal.Kumar@crisil.com

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