May 30, 2019

Singer India Limited: Ratings reaffirmed; rated amount enhanced

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term - Fund Based	25.00	26.00	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed
Short Term – Non-fund Based	19.00	19.00	[ICRA]A3+; reaffirmed
Total	**44.00**	**45.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's ratings continue to take into account Singer India Limited's (SIL's) established market position in the Indian sewing machine market as well as its growing home appliances segment. These helped SIL register ~15% year-on-year (YoY) growth in operating income (OI) in FY2019, with the robust growth (~26%) in the home appliance segment being the key contributor. The company follows an asset-light model through outsourced contract manufacturing with back-to-back warranty with the vendors for major defects, resulting in healthy return on capital.

The ratings continue to factor in SIL's long track record and established brand name in the sewing machines segment as well as its widespread distribution base and increasing traction in the home appliances business. Also, the company has a comfortable financial risk profile due to limited debt levels, resulting in healthy debt coverage indicators. The ratings, however, are constrained by the low profitability margins and intense competition, especially in the home appliances segment. The company's working capital requirements increased on account of the growth in the home appliances segment. Further, the ratings take into account the vulnerability of SIL's profitability to any adverse variations in raw material/traded goods prices.

ICRA notes the company's parent's strategy to divest its stake in SIL. However, ICRA also considers the fact that currently the mode of divestment is yet to be finalised, and there are no discussions underway with potential buyers.

Outlook: Stable

ICRA believes that SIL will continue to benefit from its established market position and maintain its market share in the sewing machines industry. The outlook may be revised to Positive if substantial growth in revenues and profitability strengthens the financial risk profile and scale up of domestic appliances business strengthens the financial profile. The outlook may be revised to Negative if the cash accruals are lower than expected because of a decline in profitability, or if debt-funded capital expenditure results in deterioration of coverage indicators or stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

More than four decades of experience in India's sewing machine industry; established brand name, market share and widespread distribution network – The company has been involved in the sewing machine business from 1977 and has a healthy market share. SIL has established distribution network as well as after-sales service network, which strengthens its market position. The company is expanding its distribution network for the home appliances segment as well and targeting the Government aided business to expand its sewing machine business.

Improved sales contribution from home appliance segment in FY2019 – SIL entered into the home appliance segment a few years back and diversified its product portfolio with a variety of products such as refrigerators, washing machines, room coolers, water heaters, food processors, dry irons and steam irons, mixer grinders, sandwich makers and toasters, hand blenders, etc. With an established supply chain and brand image, the company was able to witness considerable offtake in the home appliance segment to 30% contribution towards sales in FY2019 from 12% in FY2015.

Healthy financial risk profile with comfortable capital structure – The company's capital structure remains favourable owing to low debt, resulting in strong coverage indicators. Also, it reported ~15% growth in OI, driven mainly by healthy growth (~26%) in the home appliance segment in FY2019. Although the debt has increased due to the increased working capital requirements, the capital structure remains lightly leveraged and the debt coverage indicators remain strong.

Credit challenges

Significant product concentration to sewing machines, which have limited growth potential – The majority of the revenues and profits of SIL continue to be driven by the sewing machines segment (70% of the total revenue in FY2019). High dependence on a single product line increases the vulnerability of the company to the risk of product obsolescence/substitutes. Nonetheless, increased focus on the home appliances segment is expected to provide cushion going forward. However, the same is expected to increase the working capital requirements.

Rise in working capital requirements – As the company's focus is on the home appliances segment, there is an increasing need for stocking the finished goods. This has resulted in increased working capital requirements, which are likely to increase in the future as well, with an increased proportion of revenues from home appliances. Also, tapping of Government aided business for sewing machine segment has resulted in increased working capital requirement.

Intense competition limits profit margin – The company faces stiff competition from other players in the sewing machine as well as home appliances business. This limits its pricing flexibility and bargaining power with customers, putting pressure on its revenues and margins. The ratings are also constrained by the low value-additive nature of SIL's operations, which results in low profit margins.

Liquidity position

SIL's debt only comprises working capital limits from the bank. The company's liquidity position remains stable as reflected in positive funds flow from operations and satisfactory cash accruals. Its comfortable liquidity is further reflected in its moderate utilisation of working capital limits. Further, the company's liquidity derives comfort from its limited capital expenditure plans.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SIL; As on March 31, 2019, the company had one subsidiary - Brand Trading (India) Private Limited (enlisted in Annexure-2).

About the company

SIL was incorporated in 1977 as Indian Sewing Machine Company Limited, which was the Indian branch of the Singer Sewing Machine Company, USA. It is involved in the assembling and trading of sewing machines and home appliances. The company has been marketing sewing machines under the trademarks, Singer and Merritt.

In FY2019, the company reported a net profit of Rs. 9.39 crore on an OI of Rs. 482.99 crore compared with a net profit of Rs. 8.96 crore on an OI of 421.50 crore in the previous year.

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	421.50	482.99
PAT (Rs. crore)	9.04	9.39
OPBDIT/OI (%)	3.09%	3.12%
RoCE (%)	20.87%	20.81%
Total Debt/TNW (times)	0.24	0.37
Total Debt/OPBDIT (times)	1.07	1.47
Interest Coverage (times)	23.24	12.79

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Current Rating (FY2020)					Chronology of Rating History for the past 3 years				
					Date & Rating	Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	May 2019	January 2019	April 2018	November 2017	April 2017	May 2016
1	Fund Based	Long Term/ Short Term	26.00		[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3
2	Non-fund Based	Short Term	19.00		[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	20.50	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	Working Capital Demand Loan	NA	NA	NA	2.50	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	Export Credit	NA	NA	NA	3.00	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	LC/BG	NA	NA	NA	19.00	[ICRA]A3+

Source: SIL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Brand Trading (India) Private Limited	100.00%	Full Consolidation

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About ICRA Limited:

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