July 29, 2022

J.G. Hosiery Private Limited: Long-term rating upgraded to [ICRA]A+ and Stable outlook assigned; short-term rating reaffirmed; ratings removed from Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based term loans	11.73	11.73	Rating upgraded to [ICRA]A+(Stable) from [ICRA]A&; removed from Watch with Developing Implications, Stable outlook assigned
Long term fund based working capital facilities	75.00	75.00	Rating upgraded to [ICRA]A+(Stable) from [ICRA]A&; removed from Watch with Developing Implications, Stable outlook assigned
Long term fund based working capital facilities (sub limits)	(15.00)	(15.00)	Rating upgraded to [ICRA]A+(Stable) from [ICRA]A&; removed from Watch with Developing Implications, Stable outlook assigned
Short term fund based working capital facilities	40.00	40.00	[ICRA]A1; reaffirmed and removed from Watch with Developing Implications
Short term fund based working capital facilities (sub limits)	(106.5)	(106.5)	[ICRA]A1; reaffirmed and removed from Watch with Developing Implications
Long/Short term fund based working capital facilities	145.00	145.00	Long term rating upgraded to [ICRA]A+(Stable) from [ICRA]A&; Short-term rating reaffirmed at [ICRA]A1; ratings removed from Watch with Developing Implications; Stable outlook assigned on long-term rating
Total	**271.73**	**271.73**	

**Instrument details are provided in Annexure-I*

Rationale

The long-term rating upgrade considers ICRA's expectation that the company's credit metrics would continue to improve over the medium term. Notwithstanding the intense competition, domestic demand growth prospects for men's innerwear segment remain favourable. Together with consumers' shifting preference towards branded products and the company's established brand presence and distribution network, this is likely to drive a comfortable growth in JGH's scale and earnings. Further, limited debt-funded capex plans and reduction in the working capital intensity to historical levels are likely to keep the company's return and credit metrics healthy (with ROCE of ~18-20%, Total Debt/ OPBDITA of less than 2 times and interest cover of over 6 times estimated for FY2023).

ICRA has also removed the ratings from Watch with Developing Implications on conclusion of the demerger process and clarity emerging on the impact of the same on the company's business and financial risk profiles. The ratings had been placed under watch in April 2021 amid uncertainties over the potential impact of the business restructuring exercise, in which a portion of the company's assets and liabilities was to be demerged into another company. While the restructuring led to lower scale of operations/earnings in the demerged entity, and geographically restricted JGH's presence to one brand in its portfolio, it has not materially impacted its profitability, capital structure and asset base. Further, the company's growth prospects remain comfortable, based on its available brand portfolio and access to markets, post the demerger.

The ratings continue to draw strength from JGHPL's healthy financial profile, characterised by its conservative capital structure (Total debt/ Tangible Net Worth of 0.8 for FY2022E (provisional estimate)), healthy coverage metrics (interest cover of more than 9 times in FY2022E) and adequate liquidity position. ICRA notes that increased product prices amid higher raw material prices affected sales volumes in Q4 FY2022, resulting in increased finished goods stocks and working capital borrowings at the end of the fiscal. Notwithstanding the near-term aberrations, ICRA expects the company's working capital cycle to gradually go back to the historical levels by the end of the current fiscal. The ratings, however, continue to be constrained by the intense competition in the fragmented domestic innerwear market, which limits JGHPL's pricing flexibility and exposes its earnings to fluctuations in yarn prices.

The Stable outlook on the company's long-term rating reflects ICRA's expectation that a consistent growth in its revenues and earnings over the medium term, together with limited reliance on debt for its capital expenditure plans and reduction in working capital intensity, will help it maintain healthy coverage metrics and adequate liquidity profile.

Key rating drivers and their description

Credit strengths

Established market position, aided by strong brands and wide distribution network – JGHPL's 'Amul Comfy' and 'Macho' brands enjoy strong market positions in the domestic men's innerwear segment and have a healthy pan-India volume share in the economy and mid-price segments, respectively. The flagship brands enjoy a strong recall because of their long presence spanning across a few decades, reflected in the better-than-average industry revenue growth over the years despite intense competition. Further, JGHPL's performance is driven by its strong distribution network built across key markets, with its brands marketed by more than 1,000 distributors and 1 lakh retailers. ICRA notes that as per the terms of the demerger scheme, rights to sell products under the 'Macho' brand in western and some of the eastern states of India have been transferred to another promoter-group owned entity with effect from December 1, 2020. While there has been some impact on JGH's scale with curtailment in the geographical presence, its growth prospects remain comfortable given the company's strong hold in the northern region, access to other brands in the portfolio and healthy ongoing spends on advertisement.

Comfortable financial risk profile – Stable earnings from operations and no major debt-funded capital expenditure incurred over the years have continued to support JGHPL's financial profile despite the high working capital intensity. The same is evident from its key credit metrics remaining at comfortable levels despite some moderation seen due to the impact of the demerger on scale and profitability. Key ratios including the interest coverage and the total debt to operating profits stood at 9.4 times and 2.4 times, respectively in FY2022E (provisional estimate).

Credit challenges

High dependence on a single segment – While JGHPL has expanded its product portfolio across brands/ sub-brands and price segments over the years, it continues to be present primarily in the men's innerwear segment, which is a small segment in the overall branded apparel industry. Further, two brands (Amul Comfy and Macho) account for more than three-fourth revenues of the company, exposing the company to brand and segmental concentration risks.

High working capital intensity – The industry is characterised by high working capital requirements to support stock holding across a wide product range. Moreover, the company is required to extend moderate credit to its partners along the supply chain. Stock levels increase in the second half of the fiscal to meet the high demand for innerwear during the summer season and reduce gradually between February and July with liquidation of inventory (stock levels also rise to an extent in the second quarter for the ensuing winter season). Following an increase in stock levels to 186 days in FY2021 from 136 days in FY2020 due to the pandemic-led disruptions, the company's inventory turnover period increased further to more than 200 days in FY2022E due to slow sales in Q4 FY2022. This followed price hikes implemented by the company in the previous quarter to absorb the raw material cost increase. With normalisation in cotton prices and pick-up in sales, ICRA expects the company's working capital intensity to revert to the pre-Covid levels.

Vulnerability to consumption trends and intense competition limit margin expansion – JGHPL's revenue growth prospects and in turn profitability and cash accruals, like other apparel retailers, are linked to macro-economic conditions, consumer confidence and spending patterns. Further, intensifying competition from the large branded innerwear players (with increased spend on brand building) as well as from numerous unorganised players limit JGHPL's pricing flexibility to some extent and will continue to have a bearing on JGHPL's growth prospects.

Liquidity position: Adequate

JGHPL's liquidity position is likely to remain adequate to meet its funding requirements, supported by expected steady earnings and adequate unutilised lines of credit. Buffer available in the working capital limits stood at around Rs. 56 crore as on March 31, 2022, with the average working capital utilisation of around 86% in the last 12 months. Further, the company is likely to generate cash accruals of more than Rs. 100 crore per annum over the medium term. As against the same, debt repayment obligations stand at less than Rs. 5 crore over the next 12 months. ICRA expects the company's cash flow from operations to remain adequate to fund the debt repayment obligations, capex plans as well as margin requirements for working capital.

Rating sensitivities

Positive factors – ICRA could upgrade JGHPL's ratings if it registers a steady growth in revenues and earnings, a sustainable improvement in its working capital cycle, while achieving greater business diversification, going forward.

Negative factors – Any sustained pressure on revenues or earnings and elongation of the working capital cycle, which could impact the liquidity position and credit metrics of the company, may result in a rating downgrade. Specific metric include interest cover below 6.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textile Industry - Apparels
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone business and financial risk profiles of JGHPL.

About the company

J.G. Hosiery Private Limited (JGHPL), held and managed by the Seksaria family, started operations as a partnership firm in 1978 and was converted into a private limited company in 2001. JGHPL manufactures and markets men's innerwear in the domestic market with a pan-India presence through more than 1,000 distributors and over 1 lakh retailers. While 'Amul Comfy' and 'Macho' are the flagship brands of the company, other brands include 'Zoiro' and 'Sporto'. The company outsources the major portion of the production requirements to job-work units, with only cutting of fabric and a portion of sewing / knitting requirements undertaken in-house at its facilities near Tirupur and Kolkata.

As per a scheme of demerger approved by the National Company Law Tribunal (NCLT) in June 2022 and effective retrospectively from December 1, 2020, rights to sell products under the 'Macho' brand in western and some of the eastern states of the country have been demerged to a promoter-group-owned company (LTK Industries Private Limited). As a part of this demerger, around one-third of the business was transferred to the new company. Further, the assets were also hived off in a similar proportion.

Key financial indicators (audited)

JGHPL Standalone	FY2020	FY2021	FY2022*
Operating income	1,232	1,267	1,093
PAT	59	122	89
OPBDIT/OI	9.7%	14.9%	12.9%
PAT/OI	4.8%	9.7%	8.1%
Total outside liabilities/Tangible net worth (times)	1.3	1.1	1.2
Total debt/OPBDIT (times)	2.2	1.4	2.4
Interest coverage (times)	4.5	11.6	9.4

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore * Provisional and after considering the demerger effect*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jul 29, 2022	Apr 22, 2021	May 22, 2020	Mar 05, 2020
1	Term Loan	Long term	11.73	7.1	[ICRA]A+ (Stable)	[ICRA]A&	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Fund based limits	Long term	75.00	-	[ICRA]A+ (Stable)	[ICRA]A&	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Fund based limits)	Long /Short term	145.00		[ICRA] A+ (Stable) /[ICRA]A1	[ICRA]A&/[ICRA]A1&	[ICRA]A (Stable)/[ICRA]A1	--
4	Fund based limits	Short term	40.00		[ICRA]A1	[ICRA]A1&	[ICRA]A1	--
5	Fund based – Sub-limits	Long term	(15.00)	-	[ICRA]A+ (Stable)	[ICRA]A&	[ICRA]A (Stable)	-
6	Fund based – Sub-limits	Short term	(106.5)	-	[ICRA]A1	[ICRA]A1&	[ICRA]A1	[ICRA]A1

Source: Company

&: Rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based term loans	Simple
Long term fund based working capital facilities	Simple
Long term fund based working capital facilities (sub limits)	Simple
Short term fund based working capital facilities	Simple
Short term fund based working capital facilities (sub limits)	Simple
Long/Short term fund based working capital facilities	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based term loans	Nov 2020	-	November 2026	11.73	[ICRA]A+(Stable)
NA	Long term fund based working capital facilities	-	-	-	75.00	[ICRA]A+ (Stable)
NA	Long term fund based working capital facilities (sub limits)	-	-	-	(15.00)	[ICRA]A+ (Stable)
NA	Short term fund based working capital facilities	-	-	-	40.00	[ICRA]A1
NA	Short term fund based working capital facilities (sub limits)	-	-	-	(106.5)	[ICRA]A1
NA	Long/Short term fund based working capital facilities	-	-	-	145.00	[ICRA]A+(Stable)/[ICRA]A1

Source: *Company*

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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