January 10, 2017

Kamadgiri Fashion Limited

Instrument*	Rated Amount (Rs. in crore)	Rating Action
Fund-based Limits	50.00#	Reaffirmed at [ICRA]BBB- (Stable)
Non-fund Based Limits	9.00	Reaffirmed at [ICRA]A3
Total	**59.00**	

*Instrument details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long-term rating of [ICRA]BBB- (pronounced as ICRA triple B minus)[1] on the Rs. 50.00-crore fund-based cash credit facility of Kamadgiri Fashion Limited (KFL or the company). ICRA has also reaffirmed the short-term rating of [ICRA]A3 (pronounced as ICRA A three) on the Rs. 9.00-crore[2] non fund-based Letter of Credit facilities of KFL. The outlook on the long-term rating is 'Stable'.

Rationale

The reaffirmed ratings factor in the integrated operations across the textile value chain and the economies of scale derived from the company's presence in greige fabric, suiting and shirting fabric and readymade garments. The ratings also favourably factor in the experience of the promoters and the company's strategic partnership with the Future Group; the company is a preferred supplier for the group's leading brands in the garments segment, and the moderate recognition of the in-house fabrics brands. ICRA also takes note of the moderation in the company's capital structure, following the equity infusion in FY2016; the stable working capital profile; and the moderate revenue growth recorded in FY2016 and YTDFY2017.

The ratings are, nevertheless, constrained by the contraction in margins in FY2016 and the current fiscal due to escalating direct costs. Dismal performance by Lombard division (cease to exist now) has led to revenue loss and lower profits in FY2016. The ratings continue to be constrained by the company's limited bargaining power and its susceptibility to raw material price fluctuations along with its exposure to intense competition in the apparels as well as the suiting and shirting segment.

Going ahead, the firm's ability to scale up operations and improve profitability and revenue growth momentum by increasing the capacity utilisation level while trimming the debt will be a key monitorable.

The profitability of the company's branded garments segment is susceptible to excise duty imposition by the Government, negatively affecting the demand and pricing. Given the pressures on margins, managing key raw materials price fluctuations and direct/indirect costs such as job-work expenses, employee costs, sales discount/dealer margins and packing materials costs will be a critical from the credit perspective. Conversely, any slowdown in the revenue growth, lower-than-expected profitability, or stretch in the working capital cycle from current levels will increase reliance on external working capital borrowings and weaken the capital structure, negatively impacting the key credit metrics.

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[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[2] *100 lakh = 1 crore = 10 million*

Key rating drivers

Credit Strengths
- Over three decades of experience of the promoters across the value chain in the textile business
- Strategic partnership with the Future Group; preferred manufacturer of leading brands in the garments segment
- Economies from integrated operations with presence in greige fabric, suiting and shirting fabric and readymade garments
- Financial profile characterised by a moderate capital structure, stable working capital profile and moderate growth recorded in FY2016 and current fiscal

Credit Weakness
- Contraction in margins due to escalating direct costs; dismal performance by Lombard division (cease to exist now) has led to revenue loss and lower profits in FY2016
- Limited bargaining power and intense competition in the domestic market limit pricing flexibility amidst volatile input costs
- Highly competitive retail garment industry due to existence of a large number of organised and unorganised players exerts pressure on margins

Description of key rating drivers highlighted above:

KFL derives economies of scale by virtue of its integrated operations with presence in weaving, fabric manufacturing and garmenting through its four divisions namely; the weaving division which meets in house requirements, engages in job works as well as open market sales of semi processed and customised fabrics generating ~26% of sales; the apparels division which is the contract manufacturing arm for reputed brands generating ~47% of sales; the True Value Division which is the in-house fabric division generating ~26% of sales and the Uniform Solutions which the in tailor-made uniforms division generating ~1% of sales currently. Besides being a significant revenue contributor, Future Group also holds stake through its group companies namely; PIL Industries Limited (28.03%) and Surplus Finvest Pvt. Ltd. (9.69%) as of September 2016. KFL is a preferred supplier for reputed apparels brands of Future Group, which are sold through its chain of retail stores both the lifestyle and value segments across India.

The operating income of the company stood at Rs. 300.58 crore in FY2016 as against Rs. 259.67 crore in FY2015. The revenue growth over the last three years has been inconsistent, while the profitability had declined from FY2014-FY2016. While there has been regular capex in the weaving and the garment divisions, achieving optimum capacity utilisation levels and economising direct costs will be the key to improve scale of operations and profitability. The liquidity profile has, nevertheless, remained stable over the last three years, keeping the external working capital borrowings in check.

Analytical approach:
To arrive at the ratings, ICRA has taken into account the standalone financials along with key operational developments in the recent past. The firm operates as a standalone entity and does not have any subsidiary in place.

Links to applicable Criteria
Corporate Credit Rating –A Note on Methodology
Methodology on Textiles (Apparels)

About the Company:
Incorporated in 1987, Kamadgiri Fashion Limited (KFL or the company), erstwhile Kamadgiri Synthetics Ltd (KSL), has evolved from a fabric weaver/manufacturer to a full chain textile unit. In view of this, the name of the company was changed from Kamadgiri Synthetics Ltd to Kamadgiri Fashion Ltd w.e.f October 2010. The company is currently engaged in weaving and manufacturing (in-house) fabrics as well as ready-to-wear garments (contract manufacturing) namely formal shirts, casual shirts and bottom wear for reputed brands. It also offers customised uniform tailoring. Based in Andheri, Mumbai, the firm operates a weaving unit in Umbergaon, Gujarat and a garmenting division comprising of two units in Tarapur, Maharashtra. The shares of KFL were listed on the Bombay Stock Exchange in 1993. Future Group has picked up a strategic stake in KFL

for apparels supplies. Pantaloon Industries Limited; a part of Future group, currently holds 28.03% stake in KFL.

The company is promoted by Mr. Pradip Kumar Goenka and his family. Mr. Pradip Kumar Goenka has more than three decades of experience in the textile business. He has been associated with KFL since its inception. KFL recorded a net profit of Rs. 1.90 crore on an operating income of Rs. 300.58 crore for the year ending March 31, 2016, and a net profit of Rs. 2.01 crore on an operating income of Rs. 156.51 crore for the half year ending September 30, 2016 (unaudited).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month- year & Rating in FY2014
				January 2017	November 2015	August 2014	June 2013
1	Cash Credit	Long Term	50.00#	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)
2	Letter of Credit	Short Term	9.00	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3

 # consists IUBD sublimit of Rs. 5.00 crore rated [ICRA]BBB-(Stable) on the long term scale

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

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit#	-	-	-	50.00	[ICRA]BBB- (Stable)
Letter of Credit	-	-	-	9.00	[ICRA]A3

 # consists IUBD sublimit of Rs. 5.00 crore
Source: KFL

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