November 03, 2017

Kamadgiri Fashion Limited Revised

Summary of rated instruments

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

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating to [ICRA]BBB (pronounced ICRA triple B)[1] from [ICRA]BBB- (pronounced ICRA triple B minus) and the short-term rating to [ICRA]A3+ (pronounced ICRA A three plus) from [ICRA]A3 (pronounced ICRA A three) to the Rs. 59.00-crore[2] fund-based and non-fund based facilities of Kamadgiri Fashion Limited ('KFL' or 'the company). The outlook on the long-term rating is Stable.

Rationale

The ratings upgrade takes into account the steady growth in revenue over the last five fiscals, the gradual reduction in debt levels from scheduled long-term debt repayments and its lower reliance on external working capital borrowings through better management of debtor and inventory turnaround. The same has led to an improvement in the capitalisation as well as the coverage indicators, along with better generation of free cash flows. The ratings continue to draw comfort from 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. It is a preferred supplier catering to the Future Group's leading brands in the garments segment.

The ratings, however, continue to be constrained by the modest operating profitability levels due to its limited bargaining power and its susceptibility to raw material price fluctuations. The company also remains exposed to the stiff competition in the apparels as well as the suiting and shirting segment.

Going ahead, the firm's ability to scale up its operations through diversification in customer base and improve the profitability levels by moving into more value-added product lines, while managing its working capital cycle, so as to further improve the debt metrics will be the key rating sensitivities.

[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

- **Extensive experience of the promoter has been instrumental in transforming KFL into an integrated textile unit -** The promoter, Chairman and Managing Director, Mr. Pradip Kumar Goenka, has been present in the textile business since 1978. Under his guidance the company has evolved into a fully-integrated unit, launched its in-house 'True Value' brand for suiting and shirting in 2005 and took over Stripes Apparels Ltd (SAL), a part of the Future Group in 2008. It has built established relations with reputed brands rendering a wide coverage in terms of market presence.
- **Strategic partnership with the Future Group; preferred manufacturer of leading brands in the garments segment -** About 30% of the revenues of KFL is contributed by the Future Group. KFL has entered into a strategic partnership with the Future Group whereby the company will be the preferred supplier for their private brands retailed across its network. The partnership also provides access and leverage for KFL to Future Group's extensive knowledge and infrastructure in areas like gathering customer insights, manpower training, logistics, supply chain management and brand development.

  Besides being a significant revenue contributor, the Future Group also holds a stake through its Group companies namely - PIL Industries Limited (28.03%) and Surplus Finvest Pvt. Ltd. (9.69%) as of September, 2017. KFL is a preferred supplier for reputed apparels brands of the Future Group, which are sold through its chain of retail stores, both the lifestyle and value segments across India.
- **Economies from integrated operations with presence in greige fabric, suiting and shirting fabric and readymade garments -** KFL has three manufacturing facilities - one weaving unit at Umbergaon, Gujarat and two garment units at Tarapur, Maharashtra. The two units at Tarapur are dedicated to manufacture men's formal and casual shirts. The company derives economies from integrated operations with its presence in greige fabric, suiting and shirting fabric and readymade garments. As regards the garments unit, the capacity utilisation was fairly high at ~74% and it was 80% for the weaving unit in FY2017.
- **Steady growth in operating income, moderation in capital structure through better working capital management -** The company reported a steady growth in the OI at a compounded annual growth rate of ~10% for the period FY2012-FY2017. The net worth base stood at Rs. 31.99 crore in FY2016 post-equity infusion while as of FY2017 it stood at Rs. 34.48 crore. The capital structure as represented by the gearing has reduced from 1.77 times as on March 31, 2016 to 1.44 times as on March 31, 2017. This was also attributable to the decline in debt levels comprising primarily the working capital borrowings and the repayment of long-term debt. The total debt to operating profit (TD/OPBIDTA) witnessed a steady improvement from 4.66 times as of FY2013 to 3.02 times as of FY2017. KFL also reported an improvement in its working capital management and cash flow indicators in FY2017.

Credit weaknesses

- **Limited bargaining power and intense competition in the domestic market reduces pricing flexibility amidst volatile input costs -** The raw material cost is the single largest component of the cost structure of a textile player. Hence, the price of raw materials has a critical bearing on its performance. KFL has agreements with leading brands for contract manufacturing, which is driven by established relations with its clients. However, the large textile chains are usually the price takers rendering KFL limited bargaining power. Further, the pricing of the finished garment is based on the fabric and amount of value addition charges in the nature of cutting, dyeing, stitching, embroidery and final packing and are subjected to periodic price revision policy with its customers, which partially mitigate the raw material price risk. The company's limited bargaining power and its susceptibility to raw material price fluctuations limits the pricing flexibility.
- **Intense competition from a large number of organised and unorganised players –** Intense competition from the local and other international players in the retail garment and fabrics industry, catering to the mid-high end category, has kept the firm's bargaining power weak. The readymade garment (RMG) industry is highly fragmented in nature due to the policy promotion of the small scale sector by the Government over the decades. Even though there has been growth in the organised RMG sector, it continues to be dominated by small scale units with limited production capacity, since the inflexible labour policies do not favour the larger players. This leads to intense competition among a large number of players (in the apparels as well as the suiting and shirting segments), leading to limited pricing flexibility. KFL continues to face selling price pressures.
- **Pressure on margins persists -** The company has recorded operating margins of 5.30% in FY2017, marginally higher than 5.05% in FY2016, from cost economies under the selling expenses head. However, the operating margin is modest owing to pricing pressures due to less bargaining power and intense competition in the textile business. The net margin continues to be under pressure due to interest burden.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:
Corporate Credit Rating – A Note on Methodology
Methodology for Indian Textiles Industry – Apparels
Methodology for Indian Textiles Industry – Fabric

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 was changed from Kamadgiri Synthetics Ltd to Kamadgiri Fashion Ltd w.e.f October, 2010. At present, it is involved in the weaving and manufacturing (in-house) of fabrics and 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 two units in Tarapur, Maharashtra. The shares of KFL were listed on the Bombay Stock Exchange in 1993.

The company is promoted by Mr. Pradip Kumar Goenka and his family. Mr. Goenka has more than three decades of experience in the textile business. He has been associated with KFL since its inception.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	300.58	309.94
PAT (Rs. crore)	1.90	2.49
OPBDIT/ OI (%)	5.05%	5.30%
RoCE (%)	12.97%	13.60%
Total Debt/ TNW (times)	1.77	1.44
Total Debt/ OPBDIT (times)	3.74	3.02
Interest Coverage (times)	1.83	1.96
NWC/ OI (%)	20%	18%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital Employed; TNW: Tangible Net-Worth; NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past three years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				November 2017	December 2016	November 2015	August 2014
1	Fund-based Limits	Long Term	50.00	[ICRA]BBB (Stable); Upgraded	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- -outlook revised from Negative to Stable
2	Non-fund Based Limits	Short Term	9.00	[ICRA]A3+; Upgraded	[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	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Current Rating
NA	Fund-based Working Capital Limits				50.00	[ICRA]BBB (Stable)
NA	Non-fund Based Letter of Credit				9.00	[ICRA]A3+

Source: KFL

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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.

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