Kamadgiri Fashion Limited

January 31, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit#	50.00	50.00	[ICRA]BBB(Stable); Outstanding
Term Loan	-	10.00	[ICRA]BBB(Stable); Assigned
Letter of Credit	9.00	9.00	[ICRA]A3+; Outstanding
Total	**59.00**	**69.00**	

 # consists fund based bill discounting sublimit of Rs. 5 crore

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB (pronounced ICRA triple B) to the Rs. 10.00-crore (enhanced from nil) term loan facility of Kamadgiri Fashion Limited (KFL or the company). The company also has an outstanding long-term rating of [ICRA]BBB which was assigned to the Rs. 50.00-crore[1] cash credit facility and an outstanding short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) which was assigned to the Rs. 9.00-crore letter of credit facility[2]. The outlook on the long-term rating is Stable.

Rationale

The ratings assignment 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 management of debtor and inventory turnaround. The same has led to an improvement in the capitalisation as well as the coverage indicators, along with positive fund flow from operations over the period under study. 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. KFL 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.

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

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

Outlook: Stable

ICRA believes KFL will continue to benefit from the extensive experience of its promoters and the strategic partnership with the Future Group.

The outlook may be revised to Positive if substantial growth in revenue is reported through diversification in customer base along with improved profitability, debt metrics and better working capital management which strengthens the financial risk profile of the company.

The outlook may be revised to a Negative following a deterioration in profitability, lower-than-expected cash accruals or if any major debt-funded capital expenditure is incurred without commensurate improvement in the operating scale or a strain on the working capital cycle which weakens the liquidity profile.

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 involved with the textile business since 1978. The company has since 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 Suhani Trading And Investment Consultants Private Limited (erstwhile PIL Industries Limited) (28.03%) and Surplus Finvest Pvt. Ltd. (9.69%) as of December, 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 operating income (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, which improved to Rs. 34.48 crore in FY2017 and Rs. 36.62 crore in H1 FY2018. 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 and 1.47 times as on September 30, 2017. 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 and 2.63 times as of H1FY2018.

H1-o-H1 depicts a revenue growth of 1% while the profitability parameters are better in H1FY2018 as compared to FY2017. The fabrics (comprising greige fabrics and in-house shirting fabrics) and the garment divisions continue to generate almost equal components to the sales in H1 FY2018. The debt levels of the company, have however, increased owing to increased reliance on external working capital borrowings in H1 FY2018, nevertheless, the working capital position remains stable as depicted by net working capital to operating income (NWC/OI) ratio of ~20% as of September 2017.

Credit challenges

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 a 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 the organised RMG sector has grown, 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 6.52% in H1 FY2018 as compared to 5.30% in FY2017 from cost economies, however, the sustainability of the same for the full year remains to be seen. 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 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.

In FY2017, the firm reported a net profit of Rs. 2.49 crore on an operating income of Rs. 309.94 crore, as compared to a net profit of Rs. 1.90 crore on an operating income of Rs. 300.58 crore in the previous year.

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%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating January 2018	Date & Rating in FY2018 November 2017	Date & Rating in FY2017 January 2017	Date & Rating in FY2016 November 2015
1	Cash Credit#	Long Term	50.00		[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Term Loan	Long Term	10.00	7.22*	[ICRA]BBB (Stable) Assigned	-	-	-
3	Letter of Credit	Short term	9. 00		[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A3

*as of December 2017 and Rs. 6.83 crore as per the latest audited financials of FY2017

#consists *fund based bill discounting sublimit of Rs. 5 crore*

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#	-		-	50.00	[ICRA]BBB(Stable)
NA	Term Loan	FY2015-FY2018		FY2022-FY2023	10.00	[ICRA]BBB(Stable)
NA	Letter of Credit	-		-	9.00	[ICRA]A3+

#consists *fund based bill discounting sublimit of Rs. 5 crore*

Source: KFL

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Preeti Kumaran
+91 22 6169 3356
preeti.kumaran@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
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