October 11, 2022

Jeyavishnu Clothing Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Cash Credit	1.00	-	-
Long Term – Term Loan	-	29.95	[ICRA]BBB+(Stable); assigned
Short Term – Fund Based	15.00	35.00	[ICRA]A2; reaffirmed/assigned
Short term - Interchangeable	-	(59.00)	[ICRA]A2; assigned
Long term - Interchangeable	-	(5.00)	[ICRA]BBB+(Stable); assigned
Total	**16.00**	**64.95**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of K. M. Knitwear Private Limited (KMPL), Jeyavishnu Clothing Private Limited (JCPL) and K. M. Knitwear (KMK), hereafter referred to as the KMK Group, because of the common management and strong operational and financial linkages among the entities.

The ratings reaffirmation considers the expected steady performance of the KMK Group over the medium term, on the back of its established presence in the textile industry, diversified business profile, and integrated presence across the textile value chain. The Group's performance in FY2022 was supported by the favourable demand conditions, wherein its revenues grew by 33% on the back of growth across the spinning, garment and textile processing segments. The revenues are likely to improve further in FY2023 to around Rs. 850 crore, driven by steady demand from key customers across the garment and textile processing segments. While its revenues grew at a healthy pace, the Group's operating margins moderated in FY2022 to around 12% on the back of firm input costs. The operating margins are likely to remain under pressure in the current fiscal, with the sharp decline in contribution levels witnessed in the spinning segment. The large capacity expansion being undertaken by the Group exposes its earnings to execution and demand risks. Nevertheless, rich experience of the promoters, its established market position, long relationships with customers, and favourable demand conditions expected over the long term given the increasing shift in procurement of large customers in the US and EU markets from China towards other markets including India, provide some comfort. Further, with the KMK Group being selected among the few suppliers under 'Primark's Sustainable Cotton Programme' in the region, adds some comfort.

The Group is expanding its capacities at a total cost of ~Rs. 340 crore, for setting up a spinning unit and also enhance capacities across the value chain. The spinning unit is likely to be commissioned by the end of FY2023. The capital investment will be largely debt-funded, with 75% through term loans from banks and the rest to be met with internal accruals. While the expansion would strengthen the Group's market position and support its business diversification and growth targets over the medium to long term, a sizeable increase in debt levels is expected to adversely impact its leverage indicators over the medium term (till the capacities start generating adequate earnings to support improvement in leverage indicators). ICRA expects the Group's leverage metrics, including gearing and total debt to operating profits (TD/OPBDITA), likely to increase to peak levels of around 1.3 times and 4.1 times, respectively, in FY2023, and then improve in the subsequent fiscals as the capacities start generating earnings. Nevertheless, the credit profile continues to take comfort from the expected adequate cash flows and coverage metrics over the next three fiscals, with the minimum debt service coverage ratio (DSCR) expected to be at around 2.0 times. The ratings also consider the susceptibility of earnings to fluctuations in raw material prices and foreign exchange rates, given the limited pricing flexibility in the business, high working capital requirements in the sector, and customer concentration risks in the garment segment, with the top customer contributing to ~40% of revenues in the recent fiscals.

The Stable outlook on the rating reflects ICRA's opinion that the Group's operating performance will continue to benefit from its established market position with a diversified business profile, and its long relationships with key customers aiding repeat orders.

Key rating drivers and their description

Credit strengths

Diversified revenue profile and established presence in spinning and garment segments – The Group's business profile is diversified across the textile value chain and includes spinning, garment manufacturing and textile processing (dyeing and printing) operations. The wide product portfolio across segments drives growth, improves operating efficiency and limits the impact of slowdown in any one segment on the Group's overall earnings. The Group derives around 45-50% of its revenues and earnings from garment manufacturing, while the contribution from spinning and textile processing is at around 25-20% and 20-25%, respectively. Further, the Group has windmills set up with a total power generation of 12.1 MW, which meets around 80% of the total power requirements of the Group. In addition to its diversified presence, the Group's performance over the years has been driven by its established presence across segments, its long relationships with customers and suppliers and the extensive experience of the promoters in the industry.

Comfortable financial profile – The Group's financial profile remains adequate, characterised by adequate leverage indicators and coverage metrics. Key metrics such as total debt to operating profits and DSCR were at 2.6 and 2.3 times, respectively, in FY2022. The Group's leverage indicators are expected to moderate over the near to medium term, on the back of a large debt-funded expansion being undertaken, till the new capacities ramp-up and start operating at optimal levels of capacity utilisation. ICRA expects the Group's leverage indicators to improve from FY2024, with the new spinning unit likely to operate at ~70% and the profitability expected to improve from the current modest levels witnessed in the spinning segment. Further, the project is in the nascent stage of development, and the same exposes its earnings to execution and demand-related risks. Despite these risks, an expected improvement in the business profile, along with the estimated comfortable coverage metrics and liquidity position, lend comfort.

Credit challenges

Earnings exposed to fluctuations in raw material prices and foreign exchange rates – The operating profitability of the Group is exposed to the volatility in key raw material prices, including cotton (spinning segment) and yarn (garments segment), as it has relatively limited pricing flexibility in a fragmented and highly competitive industry. Earnings have been protected, to an extent, by the Group's diverse presence across multiple segments. Further, the company's profitability is exposed to fluctuations in exchange rates, given its export-concentrated customer profile in the garments segment.

High customer concentration in garment segment – The Group derives a major portion of its revenues and earnings from the garments segment and the performance is exposed to relatively higher customer concentration. The same exposes revenues to the performance of its key customers, as seen especially in the recent quarters. The risk is mitigated to an extent by the established relationships with its existing clientele, reflected in the repeat business generated over the years. Further, the Group has increased its focus towards new customer additions to reduce dependence on its top customers. Further, the customer profile for the garment segment comprises leading global apparel retailers, which also adds comfort to an extent.

Liquidity position: Adequate

The liquidity position of the Group is expected to remain adequate over the coming quarters, supported by the steady earnings from operations and an adequate cash buffer. The cash buffer (free cash reserves and unutilised lines of credit) was comfortable at Rs. 70 crore as on July 31, 2022. The average utilisation of its fund-based limits over the last 12 months ending August 2022 was at around 90%. The Group's debt repayments in FY2023 and FY2024 are limited at around Rs. 10 crore and Rs. 16 crore, respectively. Despite the proposed large capital expenditure of Rs. 340 crore over FY2022 to FY2024, the liquidity position would be supported by steady cash accruals of around Rs. 70 crore per annum during the period, and the term loans of ~Rs. 190 crore to be drawn to part-fund the expenditure.

Rating sensitivities

Positive factors - The ratings may be upgraded upon timely commissioning of the projects without any cost overruns and successful ramping up of the facilities, which, in turn would support improvement in credit metrics and liquidity position. A specific credit metric for an upgrade is if TD/OPBDITA reduces to less than 2.3 times, on a sustained basis.

Negative factors - The ratings may be downgraded upon any material time or cost overruns or sub optimal utilisation of new capacities upon commissioning, which will adversely impact the credit profile. Further, any sustained pressure on revenues and earnings or deterioration of its working capital cycle, which would adversely impact the credit metrics and liquidity position could also result in a downgrade. A specific credit metric for a downgrade is if DSCR reduces to less than 1.8 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry - Spinning Rating Methodology for Entities in the Textiles Industry – Apparels Consolidation and Rating Approach
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of K. M. Knitwear Private Limited, Jeyavishnu Clothing Private Limited and K. M. Knitwear.

About the company

JCPL, incorporated in 2007, is involved in textile processing particularly dyeing and printing of fabrics, with its facilities in Tirupur. The company operates with a dyeing capacity of 20 tonnes per day and has printing capacity of 10,000 pieces per day, catering to the processing requirements of the Group and other textile players in the region.

About the group

KMK Group, promoted by Mr. K.M. Subramanian and his family, is based in Tirupur and operates with its three entities namely KMPL (Spinning and Garments), JCPL (Textile Processing) and KMK (Wind Mills). The Group operates a spinning unit with a capacity of 36,000 spindles (to be enhanced to 78,000 spindles with the new facility), a garment manufacturing unit with an installed capacity of 1,80,000 units per year and a processing unit with a dyeing capacity of 20 tons per day and printing capacity of 10,000 pieces per day. The Group also has windmills with total power generating capacity of 12.1 MW to meet a portion of its power requirements.

Key financial indicators (audited)

	Consolidated		Standalone	
	FY2021	FY2022	FY2021	FY2022
Operating income (All lower except first letter and bold)	570.5	757.0	155.9	287.5
PAT	58.5	55.7	14.2	18.5
OPBDIT/OI	14.68%	11.93%	11.28%	7.55%
PAT/OI	10.26%	7.35%	9.13%	6.43%
Total outside liabilities/Tangible net worth (times)	1.7	1.8	0.6	0.7
Total debt/OPBDIT (times)	2.1	2.6	1.1	1.2
Interest coverage (times)	4.9	5.8	16.0	18.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 as of August 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Oct 11, 2022	Aug 11, 2021		
1	**Cash Credit**	Long term	-	-	-	**[ICRA]BBB+ (Stable)**	-	-
2	**Term Loan**	Long term	29.95	9.59	**[ICRA]BBB+ (Stable)**	-	-	-
3	**Fund based facilities**	Short term	35.00	-	**[ICRA]A2**	**[ICRA]A2**	-	-
4	**Interchangeable**	Short Term	(59.00)	-	**[ICRA]A2**	-	-	-
5	**Interchangeable**	Long term	(5.00)	-	**[ICRA]BBB+ (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Short-term – Fund-based working capital	Simple
Short-term – Interchangeable	Simple
Long-term – Interchangeable	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
-	**Long Term – Term Loan**	FY2023	NA	FY2030	29.95	**[ICRA]BBB+ (Stable)**
-	**Short Term – Fund Based**	NA	NA	NA	35.00	**[ICRA]A2**
-	**Short term - Interchangeable**	NA	NA	NA	(59.00)	**[ICRA]A2**
-	**Long term - Interchangeable**	NA	NA	NA	(5.00)	**[ICRA]BBB+ (Stable)**

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
K. M. Knitwear Private Limited	-	Full Consolidation
K. M. Knitwear	-	Full consolidation

Source: Company

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1100
kaushikd@icraindia.com

Balaji M
+91 44 4596 4317
balaji.m@icraindia.com

Roshan Dugar
+91 40 4596 4326
roshan.dugar@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
communications@icraindia.com

Helpline for business queries

+91-9354738909 (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

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches