

October 26, 2023

J.G. Hosiery Private Limited: Ratings reaffirmed; outlook revised to Negative from Stable

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	[ICRA]A+, reaffirmed; outlook revised to Negative from Stable
Long term fund based working capital facilities	75.00	75.00	[ICRA]A+, reaffirmed; outlook revised to Negative from Stable
Long term fund based working capital facilities (sub limits)	(15.00)	(15.00)	[ICRA]A+, reaffirmed; outlook revised to Negative from Stable
Short term fund based working capital facilities	40.00	40.00	[ICRA]A1; reaffirmed
Short term fund based working capital facilities (sub limits)	(106.5)	(106.5)	[ICRA]A1; reaffirmed
Long/Short term fund based working capital facilities	145.00	145.00	[ICRA]A+ / [ICRA]A1, reaffirmed; outlook revised to Negative from Stable
Total	271.73	271.73	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook on the long-term rating to Negative from Stable reflects the deterioration in J.G. Hosiery Private Limited's (JGHPL) credit metrics following a decline in profitability in FY2023 amid an increase in raw material prices as the company was unable to pass on the same completely to its customers. The operating profit margin (OPM) of JGHPL declined to 5.2% in FY2023 from 13.4% in FY2022. Although some improvement is expected in the operating margins in the current fiscal, it is unlikely to reach the levels witnessed in FY2021 and FY2022 in the near term.

The ratings continue to favourably consider JGHPL's established market position, aided by a strong brand recall with a wide distribution network. Despite weak demand conditions, the company's revenues grew by ~6% to Rs. 1,113.5 crore, reflecting its entrenched market position. JGHPL is expected to post a moderate growth in its top line in FY2024. The ratings also consider the company's financial risk profile, characterised by a comfortable capital structure, as reflected by a TOL/TNW of 1.1 times as on March 31, 2023. The same is expected to remain comfortable despite the proposed debt-funded capex to be incurred towards setting up a new warehouse facility in Kolkata over the next two years. The interest coverage and debt service coverage ratio deteriorated to 2.5 times and 1.9 times in FY2023, respectively, from 9.4 times and 4.8 times, respectively in FY2022. Nonetheless, the coverage indicators are expected to improve in the current fiscal with an improvement in the operating margin.

The ratings, however, remain constrained by JGHPL's high dependence on the economy/mid-premium segment and its low penetration in the margin-accretive premium innerwear and casual wear segments. JGHPL's working capital intensity remains high owing to high stocking requirements to meet demand smoothly, thereby impacting its liquidity. Although the working capital intensity has improved in FY2023, it remains at an elevated level. The company's revenues and profitability are linked to macro-economic conditions, consumer confidence and spending patterns. Moreover, JGHPL is vulnerable to intense competition from large branded and unorganised players in the men's innerwear market, limiting its pricing flexibility and exposing its earnings to fluctuations in yarn prices.

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 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 1,400 distributors and 1.1 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. JGHPL market its products under the brand name Macho Sporto and the demerged entity markets its products under a different brand name. While there has been some impact on JGHPL'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 budget on advertisement.

Comfortable financial risk profile – JGHPL's capital structure remains comfortable despite its high reliance on working capital borrowings, aided by a strong net worth base built over the years. Its TOL/TNW stood at 1.1 times as on March 31, 2023 (previous year [PY] – 1.3 times). Despite the proposed debt-funded capital expenditure for ~Rs.155.00 crore to be incurred over the next two years, its capital structure is expected to remain comfortable. The interest coverage ratio deteriorated to 2.5 times in FY2023 from 9.4 times in FY2022 amid a decline in profitability. The debt service coverage ratio also weakened to 1.9 times in FY2023 from 4.8 times in FY2022. Nonetheless, the coverage indicators are expected to improve in the current fiscal, supported by a recovery in profitability.

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 section, which is a small segment in the overall branded apparel industry. Further, two brands (Amul Comfy and Macho) account for more than three-fourth of the company's revenues, exposing the company to brand and segmental concentration risks. Though the entity recently forayed into the kids' segment under the brand name, Kandy Floss, revenues generated in FY2023 under the new segment accounted for less than 1% of its total revenues. Improvement in revenues under the newly added kids segment would provide some diversification over the medium-to-long term.

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). The working capital intensity, as indicated by NWC/OI, declined to 52% as on March 31, 2023 from 60% as on March 31, 2022 with liquidation of the built-up inventory. Nonetheless, NWC/OI continues to remain high.

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 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. It had undrawn lines of credit worth ~Rs. 125 crore as of August 2023. Besides, the company had unutilised unsecured short-term loans of Rs. 20 crore. The capital expenditure of Rs. 90 crore and Rs. 65 crore, expected to be incurred in FY2024 and FY2025, respectively, would be funded through a mix of term loan and internal accruals.

Rating sensitivities

Positive factors – Given the Negative outlook, a rating upgrade looks unlikely. However, the outlook can be revised to Stable if the company is able to significantly increase its profitability while improving its cash flow position, leading to a sustained improvement in its overall financial profile.

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 includes an 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 1,400 distributors and over 1.1 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 at its in-house 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

JGHPL Standalone	FY2022 (Audited)	FY2023 (Provisional)
Operating income	1052.8	1113.5
PAT	85.5	19.5
OPBDIT/OI	13.4%	5.2%
PAT/OI	8.1%	1.7%
Total outside liabilities/Tangible net worth (times)	1.3	1.1
Total debt/OPBDIT (times)	2.5	5.4

JGHPL Standalone	FY2022 (Audited)	FY2023 (Provisional)
Interest coverage (times)	9.4	2.5

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

Current rating (FY2024)					Chronology of rating history for the past 3 years			
Instrument		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					October 26, 2023	Jul 29, 2022	Apr 22, 2021	May 22, 2020
1	Term Loan	Long term	11.73	2.7	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A&	[ICRA]A (Stable)
2	Fund based limits	Long term	75.00	-	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A&	[ICRA]A (Stable)
3	Fund based limits)	Long /Short term	145.00		[ICRA] A+ (Negative) /[ICRA]A1	[ICRA] A+ (Stable) /[ICRA]A1	[ICRA]A&/[ICRA]A 1&	[ICRA]A (Stable)/[ICRA] A1
4	Fund based limits	Short term	40.00		[ICRA]A1	[ICRA]A1	[ICRA]A1&	[ICRA]A1
5	Fund based – Sub-limits	Long term	(15.00)	-	[ICRA]A+ (Negative)	[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
Long-term Fund Based term loans	Simple
Long term fund based working capital facilities	Simple
Long term fund based working capital facilities (sublimit)	Simple
Short term fund based working capital facilities	Simple
Short term fund based working capital facilities (sublimit)	Simple
Long/Short term fund based working capital facilities	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: [Click Here](#)

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	FY2021	-	FY2025	11.73	[ICRA]A+ (Negative)
NA	Long term fund based working capital facilities	-	-	-	75.00	[ICRA]A+ (Negative)
NA	Long term fund based working capital facilities (sub limits)	-	-	-	(15.00)	[ICRA]A+ (Negative)
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+ (Negative) / [ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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