December 14, 2023

Jeyavishnu Clothing Private Limited: Ratings upgraded to [ICRA]A- (Stable)/ [ICRA]A2+; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Cash credit	-	16.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable); assigned for enhanced amount
Long-term – Term loan	29.95	27.84	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Short-term – Fund based	35.00	30.00	[ICRA]A2+; upgraded from [ICRA]A2
Short-term - Interchangeable	(59.00)	-	
Long-term - Interchangeable	(5.00)	-	
Long-term/Short-term - Unallocated	-	3.11	[ICRA]A- (Stable)/ [ICRA]A2+; upgraded from [ICRA]BBB+ (Stable)/ [ICRA]A2; assigned for enhanced amount
Total	**64.95**	**76.95**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of K. M. Knitwear Private Limited (KMKPL), 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 upgrade considers the improvement in the Group's operating profitability in FY2023, achieved through reduction in overall fixed overheads amid recent upgradation of its manufacturing facilities. The Group's operating margins improved by 320 bps in FY2023 and are expected to improve further in FY2024, consequent to power cost savings accruing from the recently commissioned 13.3-MW solar power plant. Further, the recent expansion for its capacities would strengthen the Group's market position and support its business diversification and growth targets over the medium to long term. The ratings also derive strength from sustained healthy capital structure, liquidity position, and expectation of steady operational and financial risk profiles. Further, extensive 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.

The ratings, however, remain constrained by the vulnerability of the Group's profitability to any adverse changes in foreign currency exchange rates, and export incentives structure. The ratings are also constrained by the intense competition in the industry, which limits the pricing flexibility of industry participants. Further, the customer concentration in the garments segment remains high with the top customer contributing to ~40-45% 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

Extensive experience of promoters in spinning and garment segments – Promoted by Mr K. M. Subramanian and family, the promoters have an extensive track record of over three decades in the textile industry across segments. Over the years, the promoters have fostered relationships with customers and suppliers. These operational strengths have supported the Group's revenues over the years despite the industry challenges.

Diversified revenue profile – 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 20-25% and 15-20%, respectively. Further, the Group has windmills and solar power plant set up with a total power generation of 25.4 MW, which meets around 80% of the total power requirements of the Group.

Comfortable financial profile – The Group's financial profile remains adequate, characterised by adequate leverage indicators and coverage metrics. The Group reported 320 bps improvement with operating margin to 15% in FY2023 through reduction in fixed costs and upgradation of its manufacturing facilities. Higher profits improved the Group's coverage metrics as well with interest coverage of 6.5 times (5.8 times in FY2022) in FY2023. While the Group's coverage indicators are expected to moderate over the near to medium term, on the back of a large debt-funded expansion being undertaken in FY2022-FY2023, the same is still projected to be at comfortable levels along with an expected improvement in the business profile and liquidity position.

Credit challenges

Vulnerable to volatile raw material prices, demand trends in key export markets, exchange rate fluctuations and any changes in export incentive structure – The Group's profitability is susceptible to any adverse movements in raw material prices and foreign exchange rates, given the Group derives ~50-55% of revenues from the export markets. Any appreciation of the rupee vis-à-vis the dollar could adversely impact the Group's revenues and profitability as well as its competitiveness against other exporting countries. However, partial hedging via forward contracts mitigates the risk to an extent. Nevertheless, the Group faces concentration risk with its sales, which are primarily concentrated in the US and Europe regions (accounted for ~96% of the Group's export sales in FY2023). This makes the Group's performance vulnerable to any adverse demand trend or development that affects consumer spending and preferences in the US and Europe markets. Further, like other apparel exporters, high dependence on export incentives exposes the Group's profitability and competitiveness in the international markets to any adverse change in the export incentive structure.

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. 50 crore as on October 31, 2023. The average utilisation of its fund-based limits and non-fund based limits over the last seven months ending in October 2023 was around 75% of its sanctioned limits. The cushion in working capital limits, expected healthy net cash accruals and the financial flexibility with lenders are expected to support the Group's liquidity profile over the medium term. With limited capex plans going forward and annual repayment obligations of ~Rs. 14 crore and Rs. 31 crore vis-a-vis the projected annual cash accruals of ~Rs. 87 crore and ~Rs. 94 crore, respectively, in FY2024 and FY2025 also provide comfort.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a healthy and sustained increase in the Group's scale of operations and profits, together with an improvement in its liquidity profile and capital structure. A specific credit metric for an upgrade is if TD/OPBDITA is below 2 times, on a sustained basis.

Negative factors – The ratings may be downgraded if there is any sustained pressure on earnings or higher-than-anticipated debt-funded capex or deterioration of its working capital cycle, which would adversely impact the credit metrics and liquidity position. A specific credit metric for a downgrade is DSCR of 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 Textile Industry – Apparels Rating Methodology for Entities in the Textile Industry – Fabric Making
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of three entities of the KMK Group, which are enlisted in Annexure-II below, given common management and strong operational and financial linkages among the entities.

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. The company also has one windmill with a generation capacity of 0.5 MW and has recently commissioned a 5-MW solar power plant in FY2023.

Key financial indicators

Consolidated	FY2022	FY2023
Operating Income (Rs. crore)	765.8	760.2
PAT (Rs. crore)	55.7	64.8
OPBDIT/OI (%)	11.8%	15.0%
PAT/OI (%)	7.3%	8.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.7	1.4
Total Debt/OPBDIT (times)	2.4	2.4
Interest Coverage (times)	5.8	6.5

Source: Group
PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Oct 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2020
					Dec 18, 2023	Oct 11, 2022	Aug 11, 2021	-
1	**Cash credit**	Long-term	16.00	-	**[ICRA]A- (Stable)**	-	**[ICRA]BBB+ (Stable)**	-
2	**Term loan**	Long-term	27.84	27.84	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	-	-
3	**Fund based facilities**	Short-term	30.00	-	**[ICRA]A2+**	**[ICRA]A2**	**[ICRA]A2**	-
4	**Interchangeable**	Short-term	-	-	-	**[ICRA]A2**	-	
5	**Interchangeable**	Long-term	-	-	-	**[ICRA]BBB+ (Stable)**	-	-
6	**Unallocated**	Short-term/ Long-term	3.11	-	**[ICRA]A- (Stable)/ [ICRA]A2+**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term Fund Based – Cash Credit	Simple
Short-term – Fund based facilities	Simple
Long term/Short term - Unallocated	Not applicable

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
-	**Long Term – Term Loans**	FY2022-FY2023	NA	FY2030	27.84	**[ICRA]A- (Stable)**
-	**Long Term – Cash Credit**	NA	NA	NA	16.00	**[ICRA]A- (Stable)**
-	**Short Term – Fund Based**	NA	NA	NA	30.00	**[ICRA]A2+**
-	**Long term/Short term - Unallocated**	NA	NA	NA	3.11	**[ICRA]A- (Stable)/ [ICRA]A2+**

Source: *KMKPL*

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	100.00%	Full Consolidation
Jeyavishnu Clothing Private Limited	100.00%	Full Consolidation
K. M. Knitwear	100.00%	Full Consolidation

Source: Group

Note: ICRA has taken a consolidated view of the three Group entities of the KMK Group.

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About ICRA Limited:

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