

January 31, 2025

## K. M. Knitwear Private Limited: Ratings reaffirmed; outlook revised to Positive from Stable

### Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – Term loan	171.04	167.29	[ICRA]A- (Positive); reaffirmed; outlook revised to Positive from Stable
Long-term – Cash credit	67.00	67.00	[ICRA]A- (Positive); reaffirmed; outlook revised to Positive from Stable
Short-term – Fund based	55.00	55.00	[ICRA]A2+; reaffirmed
Short term – Non-fund based	20.00	20.00	[ICRA]A2+; reaffirmed
Long-term/Short-term - Unallocated	14.96	18.71	[ICRA]A- (Positive)/ [ICRA]A2+; reaffirmed; outlook revised to Positive from Stable
<b>Total</b>	<b>328.00</b>	<b>328.00</b>	

\*Instrument details are provided in Annexure I

### 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 revision in the outlook on the long-term rating of the KMK Group considers healthy operational and financial performances in H1 FY2025 and expectation of a sustained revenue growth and comfortable return metrics over the medium term, supported by favourable demand conditions and increasing shift in apparel sourcing by large customers in the US and EU markets from China towards other markets, including India. In FY2024, the consolidated revenues grew by ~9% on a YoY basis to Rs. 821.7 crore and the operating margins improved by 240 bps to 17.5% through reduction in the fixed overheads amid recent upgradation of its manufacturing facilities and power cost savings accruing from the recently commissioned 14-MW solar power plant. Further, in H1 FY2025, supported by healthy capacity utilisation and modest increase in realisation, revenues grew by ~44% on a YoY basis to Rs. 592.5 crore (provisional number) and the operating margins remained around the same level of FY2024. The recent expansion of capacities supported its revenue growth and backward integration of facilities. 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, 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 incentive 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 ~40% to its revenues.

## 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.

**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 45-50% of its revenues and earnings from garment manufacturing, while the contribution from spinning and textile processing stood at 25-30% and 12-15%, respectively. Further, the Group has windmills and solar power plants with an installed capacity of 28.2 MW, which meet ~60% of its the total power requirements.

**Comfortable financial profile** – The Group's financial profile remains healthy, characterised by adequate leverage indicators and coverage metrics. The Group reported a 240-bps improvement in the operating margin on a YoY basis to 17.5% in FY2024, supported by reduction in fixed costs and upgradation of its manufacturing facilities. The Group's coverage metrics were comfortable with an interest coverage of 4.8 times and DSCR of 3.0 times as on March 31, 2024 and 5.8 times and 2.2 times, respectively, as on September 30, 2024. Considering no major capex plans in the near-to-medium term, the Group's coverage indicators are expected to remain 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 change in export incentive structure** – The Group's profitability remains susceptible to any adverse movement in raw material prices and foreign exchange rates as the Group derives 40-50% of its revenues from the export markets. Volatility in exchange rates could adversely impact the Group's revenues and profitability, and 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 export sales, which are primarily concentrated in the US and Europe regions (accounted for ~95% of the Group's export sales in FY2024). 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.

**Exposed to high customer concentration in garment segment** – The Group derives the major portion of its revenues and earnings from the garments segment and is exposed to relatively higher customer concentration. The same exposes its revenues to the performance of its key customers. 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 addition to reduce dependence on its top customers. The customer base in the garment segment includes leading global apparel retailers, which also provides comfort to an extent.

### Liquidity position: Adequate

The liquidity position of the Group is expected to remain adequate over the coming quarters, supported by steady earnings from operations and an adequate cash buffer. Free cash reserves and unutilised lines of credit stood at ~Rs. 66 crore as on November 30, 2024 and the average utilisation of its fund-based limits over the last 12-month period ending in December

2024 stood at around 83% of its sanctioned limits of Rs.168 crore. 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. 40.8 crore in FY2025 and Rs.38.1 crore in FY2026, in relation to the projected annual cash accruals of ~Rs. 135 crore and ~Rs. 148 crore, respectively, provides 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 includes TD/OPBDITA 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 a deterioration in its working capital cycle, which would adversely impact its credit metrics and liquidity position. A specific credit metric for ratings downgrade includes DSCR of less than 1.8 times, on a sustained basis.

### Analytical approach

Analytical approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Textiles - Apparels</a> <a href="#">Rating Methodology for Textiles - Spinning</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KMKPL, KCPL and KMK.

### About the company

KMPL, incorporated in 2003, is involved in manufacturing cotton yarn and garments at its facilities in Tirupur. The company has an installed capacity of 70,320 spindles (enhanced from 36,000 spindles in October 2023), garment manufacturing unit with an installed capacity of 586 lakh units per year (including capacities at JCPL), primarily concentrated towards export for renowned global apparel retailers. The company also has windmills with a generation capacity of 7.4 MW and has 9-MW solar power plant. The Group entity, JCPL, incorporated in 2007, is involved in textile processing (particularly dyeing and printing of fabrics) and manufacturing of garments, with its facilities in Tirupur.

### Key financial indicators (audited)

Consolidated	FY2023	FY2024	H1FY2025*
Operating income	756.3	821.7	592.5
PAT	63.4	59.4	44.3
OPBDIT/OI	15.1%	17.5%	17.4%
PAT/OI	8.4%	7.2%	7.5%
Total outside liabilities/Tangible net worth (times)	1.4	1.7	1.4
Total debt/OPBDIT (times)	2.4	2.9	1.9
Interest coverage (times)	6.5	4.8	5.8

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA’s calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Jan 31, 2025	Dec 14, 2023	Oct 11, 2022	Aug 11, 2021
<b>Term loan</b>	Long term	167.29	<b>[ICRA]A-(Positive)</b>	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
<b>Cash credit</b>	Long term	67.00	<b>[ICRA]A-(Positive)</b>	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
<b>Fund based facilities</b>	Short term	55.00	<b>[ICRA]A2+</b>	[ICRA]A2+	[ICRA]A2	[ICRA]A2
<b>Non-fund based facilities</b>	Short term	20.00	<b>[ICRA]A2+</b>	[ICRA]A2+	[ICRA]A2	[ICRA]A2
<b>Unallocated</b>	Long term/ Short term	18.71	<b>[ICRA]A-(Positive)/ [ICRA]A2+</b>	[ICRA]A-(Stable)/ [ICRA]A2+	-	[ICRA]BBB+(Stable)/ [ICRA]A2

## Complexity level of the rated instruments

Instrument	Complexity indicator
<b>Long-term Fund-based – Term Loan</b>	Simple
<b>Long-term Fund Based – Cash Credit</b>	Simple
<b>Short-term – Fund based facilities</b>	Very Simple
<b>Short-term – Non-fund Based facilities</b>	Very Simple
<b>Long term/Short term – Unallocated</b>	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
-	<b>Long Term – Term Loans</b>	FY2022-FY2024	NA	FY2032	167.29	[ICRA]A- (Positive)
-	<b>Long Term – Cash Credit</b>	NA	NA	NA	67.00	[ICRA]A- (Positive)
-	<b>Short Term – Fund Based</b>	NA	NA	NA	55.00	[ICRA]A2+
-	<b>Short Term – Non-fund based</b>	NA	NA	NA	20.00	[ICRA]A2+
-	<b>Long term/Short term - Unallocated</b>	NA	NA	NA	18.71	[ICRA]A- (Positive)/ [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	LTHL ownership	Consolidation approach
<b>K. M. Knitwear Private Limited</b>	100.00%	Full Consolidation
<b>Jeyavishnu Clothing Private Limited</b>	100.00%	Full Consolidation
<b>K. M. Knitwear</b>	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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