

September 25, 2024

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

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 (Stable); downgraded from [ICRA]A+ (Negative); outlook revised to Stable from Negative
Long term fund based working capital facilities	75.00	75.00	[ICRA]A (Stable); downgraded from [ICRA]A+ (Negative); outlook revised to Stable from Negative
Long term fund based working capital facilities (sub limits)	(15.00)	(15.00)	[ICRA]A (Stable); downgraded from [ICRA]A+ (Negative); outlook revised to Stable from Negative
Short term fund based working capital facilities	40.00	40.00	[ICRA]A2+; downgraded from [ICRA]A1
Short term fund based working capital facilities (sub limits)	(106.5)	(106.5)	[ICRA]A2+; downgraded from [ICRA]A1
Long term/short term fund based working capital facilities	145.00	145.00	[ICRA]A (Stable)/[ICRA]A2+; downgraded from [ICRA]A+ (Negative)/[ICRA]A1; outlook revised to Stable from Negative
Total	271.73	271.73	

*Instrument details are provided in Annexure-I

Rationale

The revision in the ratings for bank lines of J.G. Hosiery Private Limited (JGHPL) factors in the weaker-than-expected recovery in the operating margins in FY2024 and the possibility of sustained pressure on realisation and margins over the near-to-medium term, amid intense competition in the industry. Lower earnings coupled with share buyback resulted in erosion of the net worth and consequently moderated the debt metrics in FY2024 (provisional).

JGHPL's operating income grew by 7% on a YoY basis to Rs. 1,186 crore, primarily driven by an increase in volumes despite subdued realisations. The revenue growth is expected to remain flat over the medium term. Despite moderation in raw material prices by ~4%, the operating margins have improved by only 80 bps to 6.0% in FY2024, on a YoY basis, due to pressure on realisations amid competition and increase in selling expenses and other costs. While the operating margins are likely to expand in the current fiscal, it is unlikely to reach the high levels witnessed in the past owing to continued pressure on realisation. The company also undertook a share buyback worth Rs. 79.8 crore (including tax paid on buyback for Rs. 15.1 crore), which had moderated its net worth position and capital structure. ICRA notes that a significant portion of these funds has been infused back into the business as interest-bearing debt from promoters. Lower profitability and increase in borrowings have moderated the leverage metrics with Total debt/OPBDITA moderating to 6.4 times in FY2024 against 5.5 times in FY2023. ICRA expects the company's overall financial risk profile to improve over the medium term, given its strong business profile.

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 sales volumes grew by ~10%, reflecting its entrenched market position. JGHPL is expected to post a moderate growth in its top line in FY2025. The ratings also consider the company's financial risk profile, characterised by a comfortable capital structure, as reflected by a gearing of 1.2 times as on March 31, 2024. 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 in FY2025. The ratings, however, remain constrained by JGHPL's high dependence on the economy/mid-premium segment and low penetration in the margin-accretive premium innerwear and casual wear segments. JGHPL's working capital intensity remained high at 54% in FY2024 owing to high stocking requirements to meet demand,

thereby impacting its liquidity. Further, its revenues and profitability are linked to macroeconomic conditions, consumer confidence and spending patterns. The company is also vulnerable to 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.

The Stable outlook on the long-term rating factors in ICRA's expectation that the revenues and earnings of the company are likely to improve in the near term with recovery in demand conditions. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, to further increase the capacity will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

Key rating drivers and their description

Credit strengths

Established market position, aided by strong brands and a 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 1,300 distributors and 1.1 lakh retailers. ICRA notes that as per the terms of the demerger scheme, the 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 markets its products under the brand, 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 brand visibility.

Comfortable financial risk profile – The company's revenues grew 7% in FY2024, and the profitability improved to 6% from 5.2% in FY2023 owing to recovery in demand conditions and moderation witnessed in raw material prices. JGHPL's capital structure remains comfortable despite its high reliance on working capital borrowings, aided by a strong net worth base build over years. While JGHPL's net worth has moderated due to share buyback done in FY2024, its gearing remained healthy at 1.2 times in FY2024. Further, a significant portion of the buyback funds had been infused back into the business as interest-bearing loan by promoters. Its TOL/TNW stood at 1.6 times in FY2024 against 1.1 times in FY2023 due to an increase in the working capital borrowings and an increase in loans availed from promoters to support the entities' liquidity, post the share buyback. The interest coverage ratio moderated to 2.5 times in FY2024 due to high reliance on working capital and promoter borrowings amid lower profitability, but is expected to improve over a medium term, supported by a recovery in profitability.

Credit challenges

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, rising 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.

Weak coverage indicators and high working capital intensity – Lower profitability and increase in borrowings (promoter loans) have weakened the coverage metrics of the company in the last two fiscals with the interest cover and the DSCR moderating to 2.5 times and 2.1 times as on March 31, 2024. Further, 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,

increased to 54% as on March 31, 2024 from 52% as on March 31, 2023 due to a marginal increase in receivables and inventory holding and reduction in creditors.

Liquidity position: Adequate

JGHPL's liquidity position is adequate, supported by an adequate buffer of ~23%, with an average utilisation of ~77% on the sanctioned lines of Rs. 335 crore during the 12-month period ending in July 2024. Against the expected cash accruals of Rs. 45-50-crore in FY2025, it has debt repayment obligation of Rs. 1.1 crore in FY2025. The company is planning to incur a capex of around Rs. 85 crore in FY2025, to be funded through a mix of debt and internal accruals in the ratio of 75:25. After availing the aforesaid debt, the repayment obligations are expected to increase to Rs. 12.3 crore in FY2026. Overall, ICRA expects JGHPL to be able to meet its near-term commitments through internal as well as external sources.

Rating sensitivities

Positive factors – The ratings can be upgraded if there is a significant increase in JGHPL's profitability while improving its cash flow position and 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 ratings downgrade. Any further cash outflow towards promoters in the form of share buyback or dividend could exert pressure on the ratings. Specific metric includes DSCR below 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles - Apparels
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

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 sells men's innerwear in the domestic market with a pan-India presence through more than 1,300 distributors and over 1.1 lakh retailers. While Amul Comfy and Macho are the flagship brands of the company, other brands include Zoiro, Sporto and Kandy Floss. 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, the 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

	FY2023	FY2024*
Operating income	1,113.8	1,186.4
PAT	18.4	24.5
OPBDIT/OI	5.2%	6.0%
PAT/OI	1.7%	2.1%
Total outside liabilities/Tangible net worth (times)	1.1	1.6
Total debt/OPBDIT (times)	5.5	6.4
Interest coverage (times)	2.5	2.5

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amounts 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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
			Sep 25, 2024	October 26, 2023	Jul 29, 2022	Apr 22, 2021	
1 Term loan	Long term	11.73	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A&	
2 Fund based limits	Long term	75.00	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A&	
3 Fund based limits	Long term /Short term	145.00	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA] A+ (Negative)/ [ICRA]A1	[ICRA] A+ (Stable)/ [ICRA]A1	[ICRA]A&/ [ICRA]A1&	
4 Fund based limits	Short term	40.00	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1&	
5 Fund based – sub-limits	Long term	(15.00)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A&	
6 Fund based – sub-limits	Short term	(106.5)	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1&	

&: Rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based term loans	Simple
Long term fund based working capital facilities	Simple
Long term fund based working capital facilities (sub limits)	Simple
Short term fund based working capital facilities	Simple
Short term fund based working capital facilities (sub limits)	Simple
Long term/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 (Stable)
NA	Long term fund based working capital facilities	-	-	-	75.00	[ICRA]A (Stable)
NA	Long term fund based working capital facilities (sub limits)	-	-	-	(15.00)	[ICRA]A (Stable)
NA	Short term fund based working capital facilities	-	-	-	40.00	[ICRA]A2+
NA	Short term fund based working capital facilities (sub limits)	-	-	-	(106.5)	[ICRA]A2+
NA	Long term/Short term fund based working capital facilities	-	-	-	145.00	[ICRA]A (Stable)/ [ICRA]A2+

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Ramakrishnan G S
+91 44 4596 4300
g.ramakrishnan@icraindia.com

Geetika Mamtani
+91 22 6169 3330
geetika.mamtani@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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