

August 29, 2019

P Kishanchand Textiles Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based limit [^]	(3.00)	(3.00)	[ICRA]B(Stable); Reaffirmed
Short-term non-fund based limit	15.00	15.00	[ICRA]A4; Reaffirmed
Total	15.00	15.00	

*Instrument details are provided in Annexure

[^]Sub-limit of short-term non-fund based limit

Rationale

The reaffirmed ratings consider the modest scale of P Kishanchand Textiles Limited's (PKTL's) operations and its weak profitability metrics in the absence of any value addition in the business, as the entire revenue is accrued from trading in fabrics. The company's weak capital structure, marked by a modest net worth base and relatively high external borrowings, were also factored in while reaffirming the ratings. Apart from borrowings, the company's working capital requirement is also met through letter of credit (LC) backed creditors, resulting in a high TOL/TNW¹ of 7.55 times as on March 31, 2019. ICRA also notes the company's presence in a highly fragmented and competitive industry structure dominated by many unorganised players due to low entry barriers, which limits its pricing flexibility.

The ratings, however, favourably consider the extensive experience of the promoters in the fabric trading business and benefits accruing from its location in the textile hub of Bhiwandi (Maharashtra), which provides advantages in terms of proximity to suppliers as well as customers.

Outlook: Stable

ICRA expects PKTL to continue to benefit from the experience of the management in fabrics trading. The outlook may be revised to Positive if there is a sustained increase in revenue and profitability. The outlook may be revised to Negative if there is any decline in profitability, or stretch in the working capital cycle, adversely impacting the liquidity profile of the company.

Key rating drivers

Credit strengths

Extensive experience of promoters in the textile industry - PKTL trades in different kinds of fabrics, which are either procured locally or are imported and sold to traders and garment manufacturers in India. The promoters have an experience of more than a decade in the textile industry, which has helped it in establishing relationships with its customers.

¹ Total Outside Liabilities/Tangible Net Worth

Location advantages from presence in Bhiwandi – PKTL’s warehousing facility is located in Bhiwandi, which is a textile hub near Mumbai that houses numerous fabric manufacturers and other textile warehouses. Therefore, the company enjoys a ready market for its products as well as a steady supply of required raw materials.

Credit challenges

Modest scale of operations - The company continues to operate on a modest scale with the operating income (OI) declining steadily to Rs. 21.94 crore in FY2018 from Rs. 56.61 crore in FY2016 due to sluggish demand in the industry. The Government’s demonetisation exercise in FY2017 and its introduction of the Goods and Services Tax (GST) in FY2018 were other causes of the drop in OI. However, the same grew by around 36% in FY2019 to close at Rs. 29.74 crore.

Low profitability due to limited value addition in the nature of the business – The fabric trading business is a low margin business without any value addition. The fabric is procured as per customer specifications, mostly from fabric manufacturers. The freight expenses and packing cost is usually borne by the company, and is incorporated in the pricing with the company managing a margin of 3–5% on the traded fabric, depending on its type. In the absence of any value addition, there is limited scope of margin improvement in the near term. The operating profit and net profit margins stood at 3.45% and 1.17%, respectively, in FY2019.

Reliance on LC-backed creditors to fund working capital requirements resulted in high TOL/TNW of 7.55 times as on March 31, 2019 – Along with the usage of fund-based facilities for procuring fabrics, the company relied heavily on its suppliers to fund operations. It enjoys a credit of 150 days on its LC-backed purchases, which has kept the TOL/TNW high at 7.55 times as on March 31, 2019 (6.23 times as on March 31, 2018).

Highly fragmented and competitive industry structure with low entry barriers, which limits pricing flexibility – The fabric trading business is extremely fragmented and dominated by a large number of small players. Due to intense competitive pricing pressures, there is hardly any pricing flexibility within the industry. The critical success factor in this industry is volume-led growth to achieve economies of scale and preferences among apparel manufacturers.

Liquidity position

The company’s liquidity profile remained moderate with an average working capital utilisation of 66% for both fund-based and non-fund based limits during the seven-month period that ended on July 2019. PKTL currently bears a minor long-term debt repayment liability of Rs. 0.07 crore per annum for the next three years. It has no capital expenditure requirements. The approximate value of LCs outstanding as on July 31, 2019 was Rs. 4.94 crore.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1998 by Mr. Kishanchand Agarwal, P Kishanchand Textiles Limited primarily trades in various fabrics, such as viscose fabrics, denims and knits, which are sold through a network of wholesalers across Maharashtra, Haryana, Punjab, Madhya Pradesh and Delhi.

The company has two warehousing facilities at Bhiwandi, while its registered office is in Mumbai.

In FY2015, the company's operations were consolidated with its sister concern, Unicorn Textiles Private Limited (UTPL), which is also involved in the same business. Under this arrangement, UTPL bought a 99.90% stake in PKTL, while it transferred its business operations to PKTL.

In FY2019 (provisional), PKTL reported a profit before tax of Rs. 0.35 crore on an operating income (OI) of Rs. 29.74 crore, compared to a profit after tax of Rs. 0.13 crore on an OI of Rs. 21.94 crore in FY2018.

Key financial indicators

	FY2018 Audited	FY2019 Provisional
Operating Income (Rs. crore)	21.94	29.74
PAT (Rs. crore)	0.13	0.35*
OPBDITA/ OI (%)	3.71%	3.45%
RoCE (%)	10.47%	14.07%
Total Debt/ TNW (times)	2.59	2.51
Total Debt/ OPBDITA (times)	6.19	5.40
Interest Coverage (times)	1.48	1.49

*profit before tax

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

RoCE: Return on Capital employed; TNW: Tangible Net Worth

Source: Financial statements of PKTL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2020)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating August 2019	Date & Rating in FY2019		Date & Rating in FY2018	
					April 2018	Date & Rating in FY2018	November 2017	Date & Rating in FY2017
1	Cash Credit*	(3.00)	-	[ICRA]B (Stable)	[ICRA]B(Stable)	[ICRA]B	ISSUER NOT	[ICRA]B
2	Letter of Credit	15.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	ISSUER NOT	[ICRA]A4

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure: Instrument Details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit*	-	12.35%	-	(3.00)	[ICRA]B(Stable)
-	Letter of Credit	-	-	-	15.00	[ICRA]A4

**Sub-limit of Letter of Credit*

Source: P Kishanchand Textiles Limited

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