

June 22, 2022

Kamadgiri Fashion Limited: Long-term rating upgraded; short-term rating reaffirmed and ratings removed from ISSUER NOT COOPERATING category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based Cash credit	55.00	55.00	[ICRA]BB(Stable); upgraded from [ICRA]B+(Stable) and removed from ISSUER NOT COOPERATING category
Long-term – Fund based Term loan	10.00	2.74	[ICRA]BB(Stable); upgraded from [ICRA]B+(Stable) and removed from ISSUER NOT COOPERATING category
Short-term Non-fund based – Letter of credit	4.00	4.00	[ICRA]A4; reaffirmed and removed from ISSUER NOT COOPERATING category
Long/Short-term - Unallocated	-	7.26	[ICRA]BB(Stable); upgraded from [ICRA]B+(Stable)/[ICRA]A4; reaffirmed and removed from ISSUER NOT COOPERATING category
Total	69.00	69.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings have been removed from the 'Issuer Not Cooperating' category based on adequate information furnished by the company to carry out a detailed credit assessment.

The revision in the ratings of Kamadgiri Fashion Limited (KFL) takes into account the improvement in revenues due to higher realisations and improved demand conditions in the industry. Further, the ratings continue to factor in the extensive experience of KFL's promoters in the textile industry and the company's well-integrated operations across the textile value chain with presence in greige fabric, suiting and shirting fabric and readymade garments.

The ratings, however, remain constrained by KFL's weak financial risk profile, characterised by a high gearing and low profitability. KFL reported 84% YoY growth in operating income and a PAT of Rs. 0.65 crore after posting losses in FY2021 and FY2020. However, the company's interest coverage ratio and DSCR stood low and the liquidity was stretched in FY2022. The limited bargaining power with its established customers and the intense competition in the domestic apparels segment restricts KFL's pricing flexibility. The company's ability to pass on the raw material inflation and improve profitability shall remain a key monitorable.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that KFL would benefit from the experience of its promoters in the textile industry and integrated operations with presence in both the fabrics and apparel segments.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in textile industry – The promoter, Chairman and Managing Director, Mr. Pradip Kumar Goenka, has been in the textile sector since 1978. The company is operating as a fully integrated unit, launching its in-house 'True Value' brand for suitings and shirtings in 2005 and taking over Stripes 2 Apparels Ltd. (SAL), a Future Group entity, in 2008. It has built established relationships with reputed brands, rendering a wide coverage in terms of market presence.

Well-integrated operations with presence in greige fabric, suiting and shirtings, and readymade garments – KFL has four manufacturing facilities—two weaving units at Umbergaon (Gujarat), one garment unit at Tarapur (Maharashtra), and a new garmenting unit at Sanjan (Gujarat). The Tarapur unit is dedicated to manufacturing men's formal and casual shirts. The company derives economies of scale from its integrated operations in greige fabric, suitings and shirtings, and manufacturing readymade garment. KFL's capacity utilisation remained mature at ~62% and 94% in its garmenting and weaving units, respectively, in FY2022.

Credit challenges

Weak financial profile – KFL's capital structure is characterised by high debt and working capital borrowings with a gearing of 2.2 times in FY2022 compared with 1.8 times in FY2021. Despite showing an improvement in revenues by 84% YoY by reporting an operating income of Rs. 257.3 crore in FY2022 over Rs. 139.9 crore in FY2021, the lower profitability has resulted in low interest coverage ratio and DSCR of 1.8 times and 1.1 times, respectively, in FY2022. Part of this is attributable to KFL's inability to pass on the rise in input costs and high overheads.

Limited bargaining power and intense competition in domestic market restricts pricing flexibility amid volatile input costs – KFL has agreements with leading brands for contract manufacturing, which is driven by established relationships with its clients. The buyers for KFL are larger players resulting in limited price flexibility for the company, which is further accentuated by the rising input costs. The prices are subjected to a periodic revision, which partially mitigate the raw material price risk.

Intense competition from organised and unorganised players – The intense competition from local and global players in the industry, catering to the mid and high-end categories, has kept the company's bargaining power weak. The readymade garment industry is highly fragmented and continues to be dominated by small-scale units with a limited production capacity, as the inflexible labour policies do not favour large players. KFL continues to face selling-price pressures.

Liquidity position: Stretched

KFL's dependence on working capital utilisation remains high at over 90% in the last six months ending in March 2022, due to elongated receivables and a limited undrawn line of credit of ~Rs. 5 crore as on March 31, 2022. Also, the cash and liquid investments remain at modest levels with a stretched liquidity profile at present. The long-term debt repayments are likely to be supported by the expected improvement in revenues and profitability. ICRA also notes that, as on date, the entity does not have plans to avail any fresh term loans or incur significant capital expenditure in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade KFL's ratings if there is a sustained improvement in sales and profitability, along with a notable improvement in its liquidity profile. A specific credit metric for an upgrade is if the interest coverage ratio is more than 2.5 times on a sustained basis.

Negative factors – Pressure on the ratings could arise if a major decline in sales and profitability further weakens the liquidity position. A specific credit metric for a downgrade is if the DSCR is less than 1.1 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	The ratings are based on the standalone financial profile of the rated entity

About the company

KFL (erstwhile Kamadgiri Synthetics Ltd. or KSL), incorporated in 1987, has evolved from a fabric weaver/manufacturer to an integrated textile unit. Consequently, it was renamed as Kamadgiri Fashion Limited w.e.f. October 2010. KFL weaves and manufactures fabrics (in-house) and ready-to-wear garments (contract manufacturing) such as formal shirts, casual shirts and bottom wear for reputed brands. It offers customised uniform tailoring services. The company, based in Andheri, Mumbai, operates weaving and garmenting units in Maharashtra and Gujarat. The shares of KFL were listed on the Bombay Stock Exchange in 1993. The Future Group holds a stake (not as promoter and promoter Group holding) in KFL through its Group companies — Nu Business Ventures Private Limited; 24.99%) and Surplus Finvest Private Limited (9.69%) — as of March 2022. The company is promoted by Mr. Pradip Kumar Goenka and his family. Mr. Goenka has more than three decades of experience in the textile industry.

In FY2022, the company reported a net profit of Rs. 0.7 crore on an OI of Rs. 257.3 crore, compared to a net loss of Rs. 5.8 crore on an OI of Rs. 139.9 crore in FY2021.

Key financial indicators (Audited)

KFL	FY2021	FY2022
Operating Income (Rs. crore)	139.9	257.3
PAT (Rs. crore)	-5.8	0.7
OPBDIT/OI (%)	2.28%	5.66%
PAT/OI (%)	-4.14%	0.25%
Total Outside Liabilities/Tangible Net Worth (times)	3.4	4.1
Total Debt/OPBDIT (times)	18.9	3.8
Interest Coverage (times)	0.4	1.8

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	Rating (FY2023)			Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding (March 31, 2022)	Current Rating	FY2022	FY2021		FY2020	
					June 17, 2022	February 28, 2022	November 09, 2020	Aug 30, 2019	Aug 30, 2019	Aug 30, 2019
1	Cash Credit	Long-Term	55	-	[ICRA]BB(Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)
2	Term Loan	Long-Term	2.74	2.73	[ICRA]BB(Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)
3	Letter of Credit	Short-Term	4	-	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4	[ICRA]A4+	[ICRA]A3	[ICRA]A3+
4	Unallocated	Long/Short-Term	7.26	-	[ICRA]BB(Stable)/[ICRA]A4	-	-	-	[ICRA]BBB- (Negative)/ [ICRA]A3	[ICRA]BBB (Negative)/ [ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Cash Credit	Simple
Fund-based – Term Loan	Simple
Non-fund based – Letter of Credit	Simple
Unallocated	NA

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: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	55.00	[ICRA]BB(Stable)
NA	Term Loan	FY2016-18	10.8% to 11.3%	FY2024	2.74	[ICRA]BB(Stable)
NA	Letter of Credit	NA	NA	NA	4.00	[ICRA]A4
NA	Unallocated	NA	NA	NA	7.26	[ICRA]BB(Stable)/[ICRA]A4

Source: KFL

Annexure-2: List of entities considered for consolidated analysis - NA

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