

July 06, 2023

Kamadgiri Fashion Limited: Ratings reaffirmed

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	49.00	[ICRA]BB (Stable); Reaffirmed
Long-Term – Fund-Based – Term Loan	2.74	1.01	[ICRA]BB (Stable); Reaffirmed
Short Term – Non-fund Based – Letter of Credit	4.00	4.00	[ICRA]A4; Reaffirmed
Long Term/Short Term – Unallocated Limits	7.26	14.99	[ICRA]BB (Stable)/[ICRA]A4; Reaffirmed
Total	69.00	69.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation of Kamadgiri Fashion Limited (KFL) continues to consider 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 because of KFL's moderate financial risk profile, characterised by high gearing and low coverage indicators. KFL reported a ~9% YoY growth in the operating income and PAT of Rs. 1.6 crore in FY2023. However, the company's interest coverage ratio and DSCR stood low at 1.6 times and 1.4 times respectively and the liquidity remained stretched in FY2023. Limited bargaining power with its established customers and intense competition in the domestic apparels segment restrict KFL's pricing flexibility. Going forward, the firm's ability to scale up its operations (through diversification of customer base) and improve the profitability levels (by economising cost and moving towards more value-added product lines), while managing its working capital cycle will be the key rating sensitivities.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that KFL would continue to benefit from the experience of its promoters in the textile industry and integrated operations with presence in both 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 involved 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 another at Sanjan (Gujarat). The Tarapur unit is dedicated for 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. Capacity utilisation of KFL's garmenting and weaving units stood at ~51% and 84%, respectively, in FY2023.

Credit challenges

Moderate financial risk profile due to weak coverage indicators – KFL’s capital structure is characterised by high debt and working capital borrowings with a gearing of 1.8 times in FY2023. Lower profitability has resulted in a low interest coverage ratio and DSCR of 1.6 times and 1.4 times, respectively in FY2023. A part of this is attributable to KFL’s inability to pass on the rise in input costs and high overheads. Going forward, these metrics are likely to improve as the company would benefit from higher economies of scale and closure of some term liabilities.

Limited bargaining power and intense competition in domestic market restrict pricing flexibility amid volatile input costs – KFL has agreements with leading brands for contract manufacturing, which is driven by established relationships with its clients. KFL’s clients comprise larger players, resulting in limited price flexibility, which is further accentuated by the rising input costs. The prices are subjected to a periodic revision, which partially mitigates the raw material price risk. The readymade garment industry is highly fragmented and continues to be dominated by small-scale units with a limited production capacity, as inflexible labour policies do not favour large players. However, comfort can be drawn from the fact that KFL has been able to procure repeat orders from its existing clients.

Environment and Social Risks

The industry is exposed to environmental risks, primarily through water, land use, and the impact of the climate on production as well as post-consumer waste. While these risks have not resulted in material implication so far, policy actions towards waste management and the environmental impact like recycling the textile as well as packaging waste generated, could have cost implications for the companies.

The entities operating in the textile sector are exposed to the risk of disruptions due to their inability to properly manage human capital in terms of safety and the overall well-being. Entities also remain exposed to any major shift in consumer preferences or developments affecting discretionary consumer spending in key markets.

Liquidity position: Stretched

KFL’s dependence on working capital utilisation stood high at ~94% of sanctioned limits in FY2023 and a limited undrawn line of credit of ~Rs. 5 crores as on March 31, 2023. Also, the cash and liquid investments stood at modest levels with a stretched liquidity profile. The long-term debt repayments are likely to be supported by the expected improvement in revenues and profitability. ICRA also notes that the entity does not have plan to avail fresh term loan or incur significant capital expenditure in the near term, which would support its liquidity profile.

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 includes an interest coverage ratio of 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 ratings downgrade includes DSCR of 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 2023. 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.

Key financial indicators (audited)

KFL	FY2022	FY2023
Operating income	257.3	280.9
PAT	0.7	1.6
OPBDIT/OI	5.66%	5.17%
PAT/OI	0.25%	0.57%
Total outside liabilities/Tangible net worth (times)	4.1	3.3
Total debt/OPBDIT (times)	3.5	4.3
Interest coverage (times)	1.8	1.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				July 6, 2023	Jun 22, 2022	Feb 28, 2022	Nov 09, 2020	Apr 22, 2020
1 Long-Term – Fund-Based – Cash Credit	Long term	49.00	--	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)
2 Long-Term – Fund-Based – Term Loan	Long term	1.01	1.01	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)
3 Short Term – Non-fund Based – Letter of Credit	Short term	4.00	--	[ICRA]A4	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4	[ICRA]A4+

Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				July 6, 2023	Jun 22, 2022	Feb 28, 2022	Nov 09, 2020	Apr 22, 2020
Long Term/Short Term – Unallocated Limits	Long term and short term	14.99	--	[ICRA]BB (Stable)/[ICRA]A4	[ICRA]BB (Stable)/[ICRA]A4	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term – Fund-Based – Cash Credit	Simple
Long-Term – Fund-Based – Term Loan	Simple
Short Term – Non-fund Based – Letter of Credit	Very Simple
Long Term/Short Term – Unallocated Limits	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
NA	Cash Credit	NA	NA	NA	49.00	[ICRA]BB (Stable)
NA	Term Loans	FY2016-18	NA	FY2025	1.01	[ICRA]BB (Stable)
NA	Letter of Credit	NA	NA	NA	4.00	[ICRA]A4
NA	Unallocated Limits	NA	NA	NA	14.99	[ICRA]BB (Stable)/[ICRA]A4

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Branches



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