November 17, 2023

Kamadgiri Fashion Limited: Long-term rating downgraded, short-term rating reaffirmed; Outlook remains Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term – Fund-Based – Cash Credit	49.00	49.00	[ICRA]BB-(Stable); downgraded from [ICRA]BB(Stable)
Long-Term – Fund-Based – Term Loan	1.01	1.01	[ICRA]BB-(Stable); downgraded from [ICRA]BB(Stable)
Short Term – Non-fund Based – Letter of Credit	4.00	4.00	[ICRA]A4; Reaffirmed
Long Term/Short Term – Unallocated Limits	14.99	14.99	[ICRA]BB-(Stable) downgraded from [ICRA]BB(Stable)/[ICRA]A4 reaffirmed
Total	**69.00**	**69.00**	

**Instrument details are provided in Annexure-I*

Material Event

Kamadgiri Fashion Limited (KFL) announced its Q2 FY2024 results on November 8, 2023. In Q2 FY2024, KFL reported an operating income of Rs. 54.8 crore with a net loss of Rs. 1.2 crore. The company's operating income stood at Rs. 105.2 crore (27.3% YoY decline) with a net loss of Rs. 2.7 crore in H1 FY2024.

Impact of Material Event

ICRA has downgraded the long-term rating to [ICRA]BB- from [ICRA]BB and has reaffirmed the short-term rating at [ICRA]A4 for the Rs. 69.0-crore bank lines of the company. The outlook on the long-term rating continues to be Stable.

Rationale

The long-term rating revision considers a deterioration in the financial performance and the operating profitability of the entity in H1 FY2024. KFL's operating income fell ~27% on a YoY basis to Rs. 105.2 crore and incurred a net loss of Rs. 2.7 crore in H1 FY2024. The company's interest coverage ratio stood low at 0.6 times during the same period and the liquidity profile continues to remain stretched. Limited bargaining power with its established customers and intense competition in the domestic apparels segment restrict KFL's pricing flexibility, which is reflected in an operating margin of 1.9% in H1 FY2024. Going forward, the firm's ability to scale up its operations (through diversification of customer base) and improve the profitability level (by economising cost and moving towards more value-added product lines), while managing its working capital cycle will be the key rating sensitivities.

The ratings, however, continue 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 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 with the textile sector since 1978. The company is a fully integrated unit, and launched its in-house True Value brand for suitings and shirtings in 2005. It took over Stripes 2 Apparels Ltd., a Future Group entity, in 2008. It has established relationships with reputed brands, rendering a wide coverage in terms of market presence.

Well-integrated operations with presence in greige fabric, suiting and shirting, 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 1.5 times in H1 FY2024. Lower profitability has resulted in a low interest coverage ratio of 0.6 times in H1 FY2024. 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 periodic revisions, which partially mitigate 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.

Environmental and Social Risks

Environmental considerations: 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.

Social considerations: 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 the sanctioned limits in FY2023 and a limited undrawn line of credit of ~Rs. 5 crore 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 increase in sales and profitability, along with a notable improvement in its liquidity profile. A specific credit metric for ratings 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.), incorporated in 1987, has evolved from a fabric weaver/manufacturer to an integrated textile unit. Consequently, it was renamed as Kamadgiri Fashion Limited with effect from 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	H1 FY2024*
Operating income	257.3	280.9	105.2
PAT	0.7	1.6	(2.7)
OPBDIT/OI	5.66%	5.17%	1.91%
PAT/OI	0.25%	0.57%	-2.57%
Total outside liabilities/Tangible net worth (times)	4.1	3.3	3.2
Total debt/OPBDIT (times)	3.5	4.3	12.2
Interest coverage (times)	1.8	1.6	0.6

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S.no.	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	
					November 17, 2023	July 6, 2023	June 22, 2022	February 28, 2022	November 09, 2020	April 22, 2020
1	**Cash Credit**	Long term	49.00		**[ICRA]BB- (Stable)**	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)
2	**Term Loan**	Long term	1.01	1.0	**[ICRA]BB- (Stable)**	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)
3	**Letter of Credit**	Short term	4.00		**[ICRA]A4**	[ICRA]A4	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4	[ICRA]A4+
4	**Unallocated Limits**	Long term/ Short term	14.99	-	**[ICRA]BB- (Stable)/ [ICRA]A4**	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Stable)/ [ICRA]A4	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Letter of Credit	Very Simple
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:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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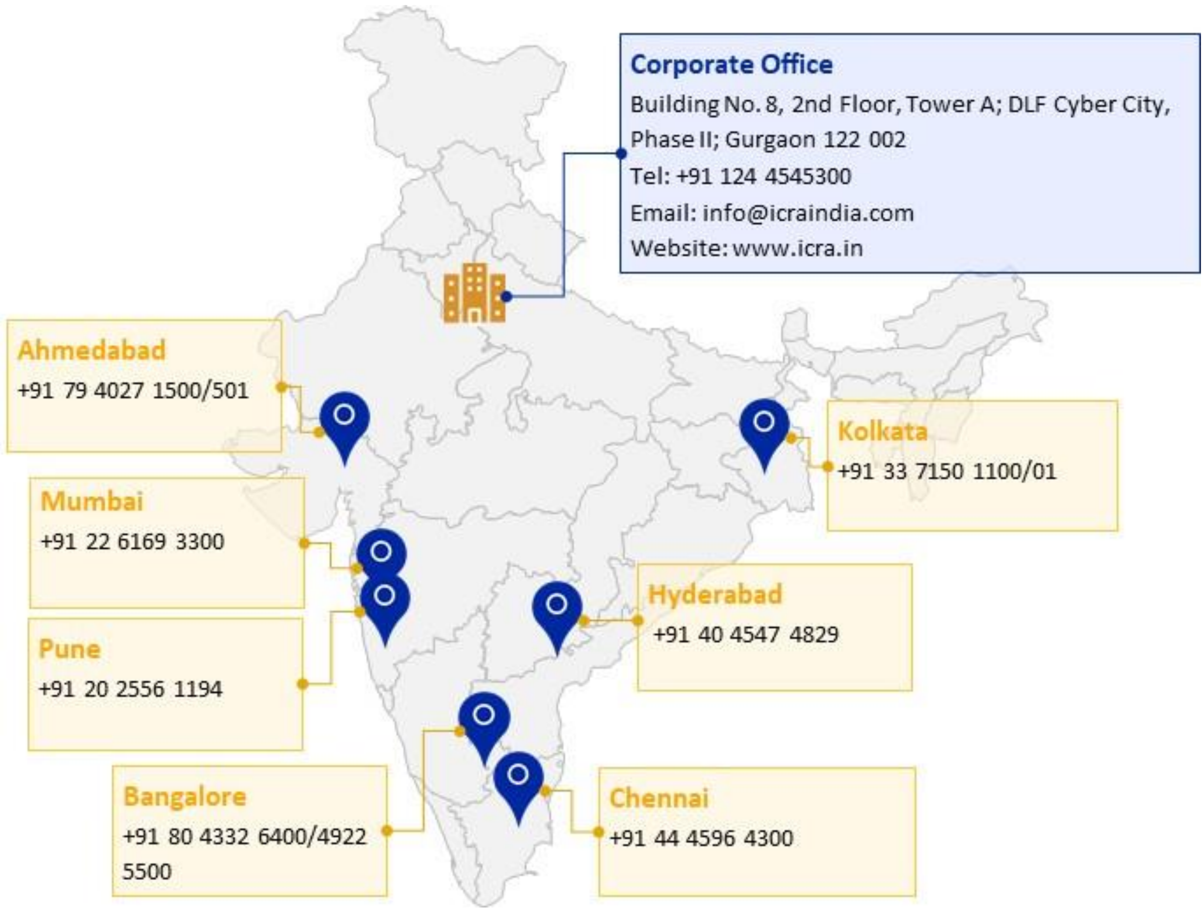

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