Kamadgiri Fashion Limited

January 07, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Cash Credit Facility	50.00	34.75	[ICRA]BBB(Stable); Reaffirmed
Fund-based - Working Capital Demand Loan	0.00	15.25	[ICRA]BBB(Stable); Reaffirmed
Fund-based - Term Loan	10.00	6.51	[ICRA]BBB(Stable); Reaffirmed
Non-fund Based - Letter of Credit Facilities	9.00	9.00	[ICRA]A3+; Reaffirmed
Unallocated Limits	0.00	3.49	[ICRA]BBB(Stable)/[ICRA]A3+; Reaffirmed
Total	**69.00**	**69.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation continues to factor in the experience of the promoters of Kamadgiri Fashion Limited (KFL) and its strategic partnership with the Future Group (its position as a preferred supplier to the Group's leading brands in the garment segment), the steady revenue growth over the last five fiscals, stable capitalisation as well as coverage indicators, and steady increase in the cash accruals. The ratings continue to draw comfort from the integrated operations across the textile value chain and the economies of scale derived from the company's presence in greige fabrics, suiting and shirting fabrics and readymade garments.

The ratings, however, continue to be constrained by the modest operating profitability levels which persisted in H1 FY2019, due to its limited bargaining power and susceptibility to raw material price fluctuations and other direct overheads, like job work charges. The ratings also note the continuing high reliance on the external working capital borrowings to support its scale. The company also remains exposed to the intense competition in the apparel as well as the suiting and shirting segments.

Going forward, the firm's ability to scale up its operations (through diversification in customer base), and improve the profitability levels (by economising cost and moving into more value-added product lines), while managing its working capital cycle, to further improve the debt metrics will be the key rating sensitivities.

Outlook: Stable

ICRA expects KFL to continue to benefit from the extensive experience of its promoters and the strategic partnership with the Future Group. The outlook may be revised to Positive if a substantial growth in revenue is reported through a diversification in the customer base, along with improved profitability, debt metrics and better working capital management, which could strengthen the company's financial risk profile. The outlook may be revised to a Negative if there is a sharp de-growth in revenues, deterioration in profitability, lower-than-expected cash accruals or if any major debt-funded capital expenditure is incurred or a strain in the working capital cycle, which weakens the liquidity profile.

Key rating drivers

Credit strengths

Extensive experience of promoter instrumental in transforming KFL into an integrated textile unit - The promoter, Chairman and Managing Director, Mr. Pradip Kumar Goenka, has been present in the textile business since 1978. Under his guidance, the company has evolved into a fully-integrated unit, launched its in-house brand, True Value, for suiting and shirting in 2005 and took over Stripes Apparels Ltd. (SAL), a part of the Future Group in 2008. KFL has built established relations with reputed brands, rendering a wide coverage in terms of market presence.

Strategic partnership with Future Group; preferred manufacturer of its leading brands in garment segment - Over 40% of KFL's revenues is contributed by the Future Group. KFL has entered into a strategic partnership with the Future Group, whereby the company will be the preferred supplier for their private brands retailed across the network. The partnership also provides access and leverage for KFL to the Future Group's extensive knowledge and infrastructure (in areas like gathering customer insights, manpower training, logistics, supply chain management and brand development).

Besides being a significant revenue contributor, the Future Group also holds a stake in KFL through its Group companies, namely Suhani Trading and Investment Consultants Pvt. Ltd. (erstwhile PIL Industries Limited, 28.03%) and Surplus Finvest Pvt. Ltd. (9.69%) as of September, 2018. KFL is a preferred supplier for the reputed apparel brands of the Future Group, which are sold through its chain of retail stores, both in the lifestyle and value segments across India.

Economies from integrated operations - KFL has three manufacturing facilities - one weaving unit at Umbergaon, Gujarat and two garment units at Tarapur, Maharashtra. The two units at Tarapur are dedicated to manufacture men's formal and casual shirts. The company derives economies from integrated operations with its presence in greige fabrics, suiting and shirting fabrics, and readymade garments. In the garment and weaving units, the capacity utilisation was fairly high at ~84% in FY2018. Further, the company launched Risque, a men's casual shirt brand, in FY2019 for entering the in-house brand garment segment. This is expected to enable the company to improve margin and increase revenue from the garment segment in the same capacities.

Steady growth in OI and moderation in capital structure, through better working capital management - The company reported a steady growth in the operating income (OI) at a compounded annual growth rate of ~7% during FY2014-FY2018. The net worth base stood at Rs. 40.6 crore in FY2018 and Rs. 42.3 crore in H1 FY2019. The capital structure as represented by the gearing stood at 1.3 times as on March 31, 2018 and 1.2 times as on September 30, 2018. The total debt to operating profit (TD/OPBDIT) witnessed a steady improvement and stood at 2.6 times in FY2018. The company's working capital profile is marked by efficient debtor cycle and inventory turnaround over the years. However, the reliance on working capital borrowings remains moderately high to support the increasing scale.

Credit challenges

Limited bargaining power reduces pricing flexibility amidst volatile input costs - The raw material cost is the largest component of the cost structure of a textile player. Hence, the raw material prices have critical bearing on KFL's performance. It has agreements with leading brands for contract manufacturing, which is driven by the established relations with its clients. However, the large textile chains are usually the price takers, rendering KFL limited bargaining power. Further, the pricing of the finished garment is based on the fabric and amount of value addition charges in the nature of cutting, dyeing, stitching, embroidery and final packing. These are subjected to periodic price revision policies with its customers, which partially mitigate the raw material price risk. The company's limited bargaining power and susceptibility to raw material price fluctuations limit the pricing flexibility.

Intense competition in domestic market - An intense competition from the local and international players in the retail garment and fabric industry, catering to the mid and high-end category, has kept the company's bargaining power weak. The readymade garment (RMG) industry is highly fragmented in nature due to policy promotion of the small-scale sector by the Government over decades. Despite growth in the organised RMG sector, the small-scale units with limited production capacity continue to dominate, since the inflexible labour policies do not favour the larger players. This leads to intense competition among a large number of players (in the apparel as well as suiting and shirting segments), leading to limited pricing flexibility. KFL, thus, continues to face selling price pressures.

Pressure on margins remains - The operating margin is modest owing to pricing pressures due to low bargaining power and intense competition in the textile business. The company recorded operating margins of 6.3% in FY2018 higher than 5.5% in FY2017, owing to lesser job work expenses on an increasing scale. The job work expenses arising from the outsourcing of certain value-additive works (like dyeing, buttoning etc) remain a major manufacturing cost component (~12%). Earlier, the weaving division cut its job works considerably. However, in H1 FY2019, the job work charges increased owing to seasonal surge in job work in the weaving division. The net margin continues to be under pressure due to the interest burden.

Liquidity position

The company's fund flow position improved significantly to Rs. 9.41 crore in FY2018 from Rs. 5.98 crore in FY2017, drawing comfort from the operating profit expansion and lower interest payout. KFL had buffer from Rs. 2 crore of cash and bank balance as of September 2018 and ~Rs. 5 crore in the form of unutilised sanctioned working capital limits with average utilisation of 82% for the last 12 months and annual repayments of less than Rs. 2.0 crore over the next four years on the existing loans.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Indian Textiles Industry – Apparels Rating Methodology for Indian Textiles Industry – Fabric
Parent/Group Support	Parent/Group Company: Not Applicable
Consolidation / Standalone	The ratings are based on the standalone financial statements of KFL.

About the company

Incorporated in 1987, KFL, erstwhile Kamadgiri Synthetics Ltd. (KSL), has evolved from a fabric weaver/manufacturer to a full chain textile unit. Due to this, the name was changed w.e.f. October 2010. At present, it weaves and manufactures (in-house) fabrics and ready-to-wear garments (contract manufacturing), namely formal shirts, casual shirts and bottom wear, for reputed brands. It also offers customised uniform tailoring. Based in Andheri, Mumbai, the company operates a weaving unit in Umbergaon and a garmenting division comprising two units in Tarapur. KFL's shares were listed on the Bombay Stock Exchange in 1993.

The company is promoted by Mr. Pradip Kumar Goenka and his family. Mr. Goenka has more than three decades of experience in the textile business. He has been associated with KFL since its inception.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	301.2	331.0
PAT (Rs. crore)	2.8	6.5
OPBDIT/OI (%)	5.5%	6.3%
RoCE (%)	14%	20%
Total Debt/TNW (times)	1.4	1.3
Total Debt/OPBDIT (times)	2.9	2.6
Interest Coverage (times)	2.0	2.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
				Amount Outstanding as of September 2018	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017
	Instrument	Type	Amount Rated (Rs. crore)	(Rs. crore)	January 2019	January 2018	November 2017	January 2017
1	Cash Credit Facility	Long Term	34.75		[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	Working Capital Demand Loan	Long Term	15.25		[ICRA]BBB (Stable)	-	-	-
3	Term Loan	Long Term	6.51	4.86	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
4	Letter of Credit Facilities	Short Term	9.00		[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3
5	Unallocated Limits	Long and Short Term	3.49		[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	-

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-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit Facility	NA	NA	NA	34.75	[ICRA]BBB(Stable)
NA	Working Capital Demand Loan	NA	NA	NA	15.25	[ICRA]BBB(Stable)
NA	Term Loan	FY2016-2018	10.95%	FY2022	6.51	[ICRA]BBB(Stable)
NA	Letter of Credit Facilities	NA	NA	NA	9.00	[ICRA]A3+
NA	Unallocated Limits	NA	NA	NA	3.49	[ICRA]BBB(Stable)/[ICRA]A3+

Source: KFL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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