

November 09, 2020

Kamadgiri Fashion Limited: Ratings downgraded to [ICRA]BB (Negative)/[ICRA]A4

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	50.00	55.00	[ICRA]BB (Negative) downgraded from [ICRA]BB+ (Negative)
Fund-based – Term Loan	10.00	10.00	[ICRA]BB (Negative) downgraded from [ICRA]BB+ (Negative)
Non-fund based – Letter of Credit	9.00	4.00	[ICRA]A4 downgraded from [ICRA]A4+
Total	69.00	69.00	-

**Instrument details are provided in Annexure-1*

Rationale

The revision in ratings of Kamadgiri Fashion Limited (KFL) reflects the deterioration in its financial risk profile characterised by a notable decline in revenues, coupled with losses emanating from muted demand for domestic apparels and fabrics in the current fiscal. Given the subdued performance in Q1 FY2021 as reflected by an operating income (OI) of Rs. 3.32 crore and net loss of Rs. 4.27 crore against an OI of Rs. 69.70 crore and net loss of Rs. 0.20 crore in Q1 FY2020, the near-term operating environment is expected to be remain challenging for fabrics and apparel manufacturers like KFL. This apart, the ratings remain constrained by the company's heightened dependence on working capital borrowings in the current fiscal due to elongated receivables from its major customers and its recovery will remain critical to provide some support to its stressed liquidity profile and hence will remain a key monitorable. Further, the limited bargaining power with its established customers and intense competition in the domestic apparels segment restricts the company's pricing flexibility.

The Negative outlook on the rating reflects the continuing pressure on the company's revenues and widening losses, along with a tight liquidity position emanating from its elongated receivable position. ICRA believes the slow revival of demand conditions is likely to further delay the recovery process and thus will impact its near-term financial performance. ICRA, however, will continue to closely monitor the developments and improvement in KFL's liquidity profile through judicious management of fixed costs.

The ratings, however, favourably 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.

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 operating in the textile sector since 1978. Under his guidance, the company has evolved into a fully-integrated unit, launching its in-house 'True Value' brand for suitings and shirtings in 2005 and taking over Stripes

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.

Association with leading brands in garments segment – KFL has been associated with leading retailers in India and international labels. In the garments segment of KFL, under its apparels division, it does contract manufacturing for reputed players. Over the last two decades, the company has developed a reliable customer base in the retail textile segment and continues to enjoy established relations with them. The company’s customer profile is diversified and comprise reputed clients including leading retailer that operates multiple retail formats in both value and lifestyle segment.

Well-integrated operations with presence in greige fabric, suiting and shirtings, and readymade garments – KFL has five manufacturing facilities—two weaving units at Umbergaon (Gujarat), two garment units at Tarapur (Maharashtra), and a new garmenting unit at Sanjan (Gujarat). The two Tarapur units are 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 readymade garment manufacturing. KFL’s capacity utilisation remained mature at ~82% in its garmenting and at 88% weaving unit in FY2020. Further, KFL launched Risque, its in-house men’s casual shirt brand, in FY2019. This is expected to enable the company to improve its margin and increase revenue generation from the garments segment in same capacities. KFL has also recently launched its women’s wear segment, under its Turquoise division. It plans to leverage its fabric manufacturing capacity for the production of innovative fabrics for women’s garments, which will go a long way in creating its own women’s wear brand in the future.

Credit challenges

ecline in revenues and losses emanating from muted demand in the past fiscal likely to be aggravated by pandemic induced disruption in the current fiscal – In FY2020, KFL’s OI witnessed a reduction of 8% and remained at Rs. 293.04 crore compared to Rs. 319.09 crore in FY2019. The operating margin moderated to 3.41% in FY2020 over 5.94% in FY2019 with inability to pass on the rise in input costs and high overheads. Weakening of operating profit in FY2020 resulted in a net loss of Rs. 3.96 crore against a net profit of Rs. 4.71 crore in FY2019. With a prolonged impact on demand in the overall textile sector, revival of sales in FY2021 is going to be slow and will be elongated on account of the discretionary nature of KFL’s product. Being sensitive to consumer discretionary spending and supply-chain disruptions, the Indian apparel sector’s performance is expected to be adversely affected by the rapid spread of the pandemic across countries. On the supply side, social distancing and lockdowns have disrupted production in recent months, given the non-essential and labour-intensive nature of operations. In addition, logistical issues have affected shipment of finished stock ready for dispatch. Evidently, the company has reported an OI of Rs. 3.32 crore and net loss of Rs. 4.27 crore in Q1 FY2021 against an OI of Rs. 69.70 crore and net loss of Rs. 0.20 crore in Q1 FY2020. The impact of the Covid-19 pandemic on the credit profile of its key customers including the Future Group, which contributed to 30% to the sales in FY2020 is likely to affect the near-term operations of the garment segment.

Sizeable debt repayments and inadequate accruals are likely to keep cash flow under stress – With cash flows impacted in Q1 FY2021, KFL has availed for moratorium on interest and principal payments provided by the regulator during March to August 2020. KFL had external term loans of ~Rs. 5.99 crore on its books as on March 31, 2020, with Rs. 2.70 crore scheduled to be repaid in FY2021. The repayment burden is going to be high in FY2022 around Rs. 5-6 crore excluding the lease liability. The company has also availed loans under the Covid-19 emergency relief scheme of Rs. 3.90 crore. The repayment of the same will begin from January 2021. Going forward, meeting the upcoming repayments will primarily be dependent on recovery of receivables as well as buffer available in cash and undrawn limits.

Heightened reliance on working capital borrowings due to elongated receivable position – The reliance on working capital utilisation is high with inventory holding of around three months due to its product profile. Further, the reliance on working capital has heightened in the current fiscal owing to elongation of receivable position. The debtors’

outstanding as of September 2020 was Rs. 37 crore (of which Rs. 17 crore is over 120 days), out of which Rs. 7.88 crore (Rs. 3.04 crore over 120 days) pertains to the Future Group and its related entities, wherein timely recovery remains an area of concern. The company's dependence on working capital utilisation remains high at over 91% for the 12-month period that ended in September 2020.

Limited bargaining power and intense competition in domestic market restricting pricing flexibility amid volatile input costs – The raw material cost is the single largest cost component for a textile player. KFL has agreements with leading brands for contract manufacturing, which is driven by established relationships with its clients. However, the large textile chains are usually the price takers, leaving KFL with 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. The same are subjected to a periodic price revision policy with KFL's customers, which partially mitigate the raw material price risk.

Intense competition from a large number of organised and unorganised players – Intense competition from local as well as global players in the industry, catering to the mid and high-end category, has kept the company's bargaining power weak. The readymade garment industry is highly fragmented due to the policy promotion of the small-scale sector by the Government over the decades. Despite growth in the organised readymade garment sector, it continues to be dominated by small-scale units with limited production capacity, since the inflexible labour policies do not favour the large players. This leads to intense competition in the field, leading to limited pricing flexibility. KFL continues to face selling price pressures.

Liquidity position: Stretched

The company's dependence on working capital utilisation remains high at over 91% in the last 12 months ending in September 2020 due to elongated receivables and limited undrawn line of credit of Rs. 7.72 crore as on September 30, 2020. Also, the cash and liquid investment remain at modest level thereby indicating a **stretched** liquidity profile at present. Long-term debt repayments are likely to be supported by a buffer available in fund-based limits, given the expected decline in top line in FY2021 and subsequent impact on profits.

Rating sensitivities

Positive triggers – ICRA could revise the outlook to Stable if there is a sustained improvement in sales and profitability along with a notable improvement in liquidity profile.

Negative triggers – Downward pressure on the rating could arise if there is a delay in receipt of receivables leading to further weakening of the liquidity position. Greater-than-anticipated weakening of sales and profitability could also lead to negative impact on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian Textile Industry - Apparels Rating Methodology for Entities in the Indian Textile Industry – Fabric Making
Parent/Group Support	-
Consolidation/Standalone	Standalone approach

About the company

Incorporated in 1987, KFL (erstwhile Kamadgiri Synthetics Ltd. or KSL) 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. Based in Andheri, Mumbai, the company 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—namely Future Corporate Resources Private Limited (erstwhile Suhani Trading and Investment Consultants Private Limited; 28.03%) and Surplus Finvest Private Limited (9.69%)—as of December 2019. 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 FY2020, the company reported a net loss of Rs. 3.96 crore on an OI of Rs. 293.04 crore, compared to a net profit of Rs. 4.71 crore on an OI of Rs. 319.09 crore in FY2019.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	319.09	293.04
PAT (Rs. crore)	4.71	-3.96
OPBDIT/ OI (%)	5.94%	3.41%
PAT/OI (%)	1.48%	-1.35%
Total Outside Liabilities/Tangible Net Worth (times)	1.13	1.68
Total Debt/ OPBDIT (times)	2.61	6.52
Interest Coverage (times)	2.62	1.28

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Rating (FY2021)		Rating History for the past 3 years							
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating 9-Nov-2020	Earlier Rating 22-Apr-2020	FY2020		FY2019	FY2018	
						20-Feb-2020	27-Dec-2019	7-Jan-2019	3-Nov-2017	
1	Cash Credit	Long Term	55.00	-	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Term Loan	Long Term	10.00	4.24	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Letter of Credit	Short term	4.00	-	[ICRA]A4	[ICRA]A4+	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4	Unallocated limit	Long Term/ Short term	-	-	-	-	[ICRA]BBB- (Negative)/ [ICRA]A3	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[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	-	-	-	55.00	[ICRA]BB (Negative)
NA	Term Loan	FY2016-FY2018	11.00-11.95%	FY2024	10.00	[ICRA]BB (Negative)
NA	Letter of Credit	-	-	-	4.00	[ICRA]A4

Source: KFL

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

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