May 22, 2020

J.G. Hosiery Private Limited: Ratings of [ICRA]A(Stable)/[ICRA]A1 assigned to enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loans	11.73	11.73	[ICRA]A(Stable); outstanding
Long-term fund-based working capital facilities	160.00	75.00	[ICRA]A(Stable); outstanding
Long-term/ Short-term fund-based working capital facilities	-	145.00	[ICRA]A(Stable)/[ICRA]A1; assigned
Short-term fund based working capital facilities	-	40.00	[ICRA]A1; assigned
Long-term fund-based working capital facilities (sub-limits)	-	(22.00)	[ICRA]A(Stable); assigned
Short-term fund-based working capital facilities (sub-limits)	(160.00)	(182.00)	[ICRA]A1; assigned
Total	**171.73**	**271.73**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings consider the established presence of J.G. Hosiery Private Limited (JGHPL) in the domestic men's innerwear market, improving business diversification, its wide supplier and distribution network and asset light model of operations, supporting its return indicators. JGHPL is estimated to have registered a volume growth of around 6% in FY2020, post a period of modest volume growth in FY2019. This improved performance was driven by a moderate recovery in demand with growing shift towards the organised branded segment in the innerwear market and focused marketing and diversification efforts made. While its operating margins are also estimated to have improved by ~200 bps in FY2020, it remains lower than the industry average, constrained by high marketing spend, limited value addition and high proportion of revenues generated from the economy and the mid-price segments. JGHPL's working capital requirements remained high in H1 FY2020, funded primarily through debt, resulting in an adverse impact on its credit metrics and liquidity position. The same was mainly because of lower-than-expected volume growth (limited by tepid demand conditions), increase in production levels owing to its new facility that started operations in FY2019 and higher stocking to back its proposed product launches and market diversification measures. However, recovery in volumes in the recent quarters resulted in a reduction in stock and debt levels, with JGHPL's key ratios including interest coverage and total debt to operating profits estimated to have improved to 4.5 times and 2.0 times, respectively in FY2020 (after deteriorating to around 3.9 times and 3.6 times, respectively in FY2019). The ratings also factor in the intense competition in the fragmented domestic innerwear market, which limits JGHPL's pricing flexibility and exposes its earnings to fluctuations in yarn prices.

The operating performance of JHGPL is expected to be under pressure in Q1 FY2021 given the adverse impact on demand conditions seen in key markets following the outbreak of Covid-19. Sales volumes from the last week of March and April 2020 were adversely impacted owing to the nationwide lockdown imposed. The apparel segment is expected to be more vulnerable, given its sensitivity to consumer demand and sentiment, as well as the labour-intensive nature of operations. The strength of the recovery will be contingent on the duration and extent of the Covid-19 pandemic, where a prolonged downturn in apparel demand will constrain its revenues and earnings. While the innerwear segment is not immune to the expected contraction in consumer spending, demand in this segment is likely to be relatively more resilient than other apparel product categories. The revenue decline for the innerwear players, including JGHPL, is likely to be at around only 10% in FY2021, supported by the strong market position held by its key brands and improving product diversification. JGHPL's margins are also expected to be adversely impacted by around 200 bps in the beginning of the current fiscal owing to under-absorption of fixed costs and likely pressure on contribution margins given the pressure on domestic consumption levels. The overall impact on margins and earnings is likely to be buffered by the cost rationalisation measures being undertaken, including a considerable reduction in marketing costs and some moderation in other expenses (primarily employee expenses, travelling costs and rentals). The current demand scenario is also likely to result in an elongation of receivables cycle and some inventory build-up in the coming months. However, JGHPL's liquidity position remains comfortable, which is expected to aid in tiding over the near-term increase in funding requirements. The ability of the company to effectively manage its working capital cycle would be critical to support its credit metrics and liquidity position, given the challenging operating conditions witnessed. ICRA will continue to monitor the developments to take suitable rating action as and when necessary.

Key rating drivers and their description

Credit strengths

Established market position, aided by strong brands and wide distribution network – JGHPL's 'Amul Comfy' and 'Macho' brands enjoy strong market positions in the domestic men's innerwear segment, having a healthy pan-India volume share in the economy and mid-price segments, respectively. The flagship brands enjoy a strong recall on the back of their long presence spanning across a few decades, reflected by a better-than-average industry revenue growth witnessed over the years despite intense competition and tepid demand conditions witnessed in the recent fiscals. Further, JGHPL's performance is driven by its strong distribution network built across key markets over the years, with its brands marketed through more than 750 distributors and 1 lakh retailers. Also, the effective sourcing mechanism, aided by its supplier base (job-work entities), lends stability to operations. The asset light model of operations, with the major portion of the production process along the value chain outsourced, limits long-term funding requirements and results in a scalable business model, supporting the return on capital employed.

Improving business diversification and favourable growth prospects for the branded innerwear industry – The company expanded its product portfolio in the recent fiscals with entry into new product segments and price points and is widening its reach with improving penetration into new markets to support the long-term revenue growth. Besides, consistent growth witnessed by the organised players, supported by India's favourable demographic profile with increasing shift towards branded products, is expected to drive volumes over the medium term.

Credit challenges

Expected pressure on operating performance in the near term – In line with the industry, JGHPL's revenues and earnings are expected to be adversely impacted in Q1 FY2021, owing to the prevalent tepid demand conditions given the Covid-19 outbreak. Besides weak consumer confidence and spending patterns, increasing competition from the branded innerwear players as well as from numerous unorganised players will continue to have a bearing on its revenues and earnings prospects, going forward. This is likely to result in moderation in credit metrics and liquidity position during the major part of H1 FY2021.

High working capital intensity – The industry is characterised by high working capital requirements to support stock holding across a wide product range and extend moderate credit to its partners along the supply chain. Stock levels increase in the second half of the fiscal to meet the high demand for innerwear during the summer season and reduce gradually between February and July with liquidation of inventory (stock levels also rise to an extent in the second quarter for the ensuing winter season). The working capital cycle had elongated in H2 FY2019 but remained better than the industry average. This, coupled with the recent reduction in working capital cycle and a comfortable liquidity position provide comfort.

Liquidity position: Adequate

The liquidity position of JGHPL has remained at comfortable levels in the recent quarters, with steady earnings and improvement in the working capital cycle. While the funding requirements were high in H1 FY2020, better operating performance and liquidation of stock supported the cash flows in H2 FY2020. The company had more than Rs. 100-crore unutilised lines of credit at the end of March 2020, with ~85% average utilisation of its fund-based limits in FY2020. Despite some moderation in earnings and an increase in working capital funding requirements expected in the near term, adequate unutilised lines of credit are expected to support JGHPL's liquidity position.

Rating sensitivities

Positive triggers – JGHPL's ratings may be upgraded if it registers a steady growth in revenues and earnings and also demonstrates a sustainable improvement in its working capital cycle as it pursues its growth objectives. The ratings may also be upgraded if the company's interest coverage improves to more than 7.0 times on a sustained basis, along with more business diversification.

Negative triggers – The ratings may be downgraded if there is sustained pressure on revenues and earnings in the coming months owing to the Covid-19 outbreak or if the company's high working capital requirement substantially affects its liquidity position. Specific metrics that may trigger a downgrade include JGHPL's receivables plus inventory cycle deteriorating to more than 180 days on a sustained basis or if its interest coverage falls below 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Entities in the Indian Textiles Industry – Apparels
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

J.G. Hosiery Private Limited (JGHPL), held and managed by the Seksaria family, started operations as a partnership firm in 1978 and was converted into a private limited company in 2001. JGHPL manufactures and markets men's innerwear in the domestic market with a pan-India presence through more than 750 distributors and over 1 lakh retailers. While 'Amul Comfy' and 'Macho' are the flagship brands, other brands include 'Zoiro' and 'Sporto'. The company outsources the major portion of the production requirements to job-work units, with only cutting of fabric and a portion of sewing / knitting requirements undertaken in-house at its facilities near Tirupur and Kolkata.

Key financial indicators

	FY2018	FY2019	9M FY2020
Operating Income (Rs. crore)	1178.12	1280.20	1058.62
PAT (Rs. crore)	39.35	40.13	55.55
OPBDITA/OI (%)	7.75%	7.62%	10.25%
RoCE (%)	18.31%	16.49%	21.81%
Total Outside Liabilities/Tangible Net Worth (times)	1.80	2.10	1.47
Total Debt/OPBDITA (times)	2.46	3.65	1.84
Interest Coverage (times)	4.34	3.90	4.96
DSCR	2.13	1.97	2.62

Source: JGHPL and ICRA research; Note: Figures till FY2019 are audited and 9M FY2020 figures are provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Type	Rating (FY2021)			Rating History for the Past 3 Years		
			Amount Rated	Amount Outstanding	Current Rating May 22, 2020	FY2020 Mar 05, 2020	FY2019 Jan 07, 2019	FY2018 Oct 03, 2017
1	Term Loans	Long Term	11.73	11.73	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Long-term Fund-based Limits	Long Term	75.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Long-term/ Short-term fund-based limits	Long Term/ Short Term	145.00	-	[ICRA]A(Stable)/ [ICRA]A1	-	-	-
4	Short-term fund based limits	Short Term	40.00	-	[ICRA]A1	-	-	-
5	Long-term fund-based sub-limits	Long Term	(22.00)	-	[ICRA]A(Stable)	-	-	-
6	Short-term fund-based sub-limits	Short Term	(182.00)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Amount in Rs. crore; Source: JGHPL

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	Sep 2018	-	July 2023	5.73	[ICRA]A(Stable)
NA	Term Loan 2	Sep 2017	-	Dec 2021	6.00	[ICRA]A(Stable)
NA	Long-term Fund-based Limits	-	-	-	75.00	[ICRA]A (Stable)
NA	Long-term/ Short-term fund-based limits	-	-	-	145.00	[ICRA]A(Stable)/ [ICRA]A1
NA	Short-term fund based limits	-	-	-	40.00	[ICRA]A1
NA	Long-term fund-based sub-limits	-	-	-	(22.00)	[ICRA]A(Stable)
NA	Short-term fund-based sub-limits	-	-	-	(182.00)	[ICRA]A1

Source: JGHPL

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

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