

Press Release

Knitcraft Apparels International Private Limited

09 March, 2018

Rating Reaffirmed



| | |
|-------------------------------------|-------------------------------|
| Total Bank Facilities Rated* | Rs. 39.00 Cr |
| Long Term Rating | SMERA BBB-/ Outlook: Negative |
| Short Term Rating | SMERA A3 |

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 35.00 crore bank facilities of Knitcraft Apparels International Private Limited (KA IPL). Further, SMERA has assigned long term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) on the Rs. 4.00 crore proposed bank facilities. The outlook is '**Negative**'.

The rating continues to derive comfort from the company's established presence and extensive experience of the management in the textile industry. The ratings are also supported by the comfortable financial profile and established relations with reputed brands. However, the above mentioned strengths are partially offset by deterioration in the liquidity profile of the company, moderate decline in revenue driven by intensive competition in the industry, susceptible of profitability to changes in input prices and foreign exchange rates.

KA IPL was incorporated in 2007 to take over the existing business of Knitcraft Apparels International, a partnership firm established in 1985. The company is engaged in the manufacture of readymade garments at its four manufacturing units (three at Gurgaon and one at Delhi). The company has also set-up a fifth plant at Palwal, Haryana. However, the same has been let out. The total installed manufacturing capacity stands at ~4 million pieces per annum. The company has integrated operations with in-house knitting and dyeing facilities. The overall operations are managed by Mr. Krishan Kumar Khurana, Mr. Sanjay Khurana, Mr. Sandeep Khurana among others. The company generates around 94 percent revenue from export of its goods to USA and United Kingdom and the remaining six percent from the domestic market.

List of key rating drivers and their detailed description

Strengths:

Established presence in the textile industry, promoter's extensive experience

KA IPL is engaged in the manufacture of readymade garments i.e. cotton T-Shirts for more than three decades. The company has integrated operations by setting-up an in-house knitting, dyeing, embroidery and finishing facilities. It has also undertaken continuous upgradation of its facilities. The established presence in the textile industry has helped the company maintain long standing relations with reputed brands including VF Group (USA), GUESS, Tommy Hilfiger, Debenhams and Hummel among others. The company also benefits from the three decades of experience of the promoters, Mr. Krishan Kumar Khurana, Mr. Sanjay Khurana and Mr. Sandeep Khurana (Promoters). The top management is ably supported by a well-qualified and experienced team of second line of management. SMERA believes that the long standing presence of the company in the textile industry and extensive experience of the promoters will continue to strengthen the business over the medium term.

Weaknesses

Decline in revenue driven by intense competition in the textile industry

The company reported moderate decline in operating income as the same stood at Rs.139.18 crore for FY2017 as against Rs. 149.78 crore in the previous year. The decline in revenue is mainly on account of

discontinuation of main customers including Polo Ralph Lauren Corporation (USA), Mark's Work Wearhouse Limited (Canada) and Superdry Group Plc (UK). These contributed around 40 percent to the revenue. The company faces stiff competition in the domestic and overseas markets from other upcoming nations which attract more business because of their lower production costs, ease-of-doing business and availability of cheap labour. Further, KAIPPL has reported sales of Rs. 100.47 crore (Provisional) during April, 2017 to January, 2018 with unexecuted order book position of Rs.25.00 crore expected to be completed by March, 2018. Going forward, the ability of the company to attract new customers and report growth in revenue will be the key rating sensitivity factor.

Liquidity pressures

The company's adjusted tangible networkth stood at Rs. 43.53 crore as on 31 March, 2017 as against Rs. 41.38 crore in the previous year. The adjusted gearing stood at 0.85 times as on 31 March, 2017 as against 1.44 times in the previous year. For arriving at tangible networkth, unsecured loan of Rs. 14.40 crore as on 31st March, 2017 is considered as quasi equity as the same is subordinated to bank debt.

The Interest Coverage Ratio (ICR) stood at 2.11 times for FY2017 as against 2.09 times in the previous year. The Debt Service Coverage Ratio (DSCR) stood at 1.62 times for FY2017 as against 1.70 times in the previous year. The adjusted Total outside Liabilities to Tangible networkth (TOL/TNW) stood at 1.61 times as on 31 March, 2017 as against 1.97 times in the previous year.

However, the company's operating cycle is elongated with Gross Current Asset (GCA) days at 214 for FY2017 as against 217 days for FY2017. The elongation is on account of build-up in the inventory days as same stood at 163 days for FY2017 as against 121 days in the previous year. The company is presently fully utilising the working capital limits. However, KAIPPL has been sanctioned additional working capital limits to support its working capital requirements. Hence, SMERA expects the liquidity profile of the company to improve going forward.

Susceptible of profitability to changes in input prices and foreign exchange rates

The profitability is susceptible to changes in the prices of raw materials i.e. cotton yarn and other consumables. The prices of cotton are highly dependent on agro-climatic conditions. Besides, cotton prices are fixed by the government through Minimum Support Price (MSP). The raw material cost constitutes ~ 46.69 percent of the total sales for FY2017 as against ~49.14 percent in the previous year. The company reported decline in EBITDA margin 9.14 percent in FY2016 to 8.51 percent in FY2017 due to significant growth in employee cost. Any change in raw material prices and other input prices can adversely affect profitability margins. The profitability of the company is also susceptible to changes in forex rates in the absence of adequate hedging mechanism.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Knitcraft Apparels International Private Limited for arriving at the rating.

Outlook: Negative

SMERA believes that KAIPPL's liquidity profile will be under pressure over the near to medium term driven by significant build up in inventory and the overall elongation of the working capital cycle. The rating would be downgraded if the liquidity pressures are further intensified due to continuing build up in inventory and delays in receivables from clients. The outlook would be revised to 'Stable' if the company is able to demonstrate growth in revenue while maintaining its working capital cycle requirement efficiently.

Applicable Criteria

- Manufacturing Entities- <https://www.smera.in/criteria-manufacturing.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

About the Rated Entity –Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 139.18 | 149.78 | 154.75 |
| EBITDA | Rs. Cr. | 11.84 | 13.69 | 15.05 |
| PAT | Rs. Cr. | 1.75 | 1.99 | 2.36 |
| EBITDA Margin | (%) | 8.51 | 9.14 | 9.72 |
| PAT Margin | (%) | 1.26 | 1.33 | 1.53 |
| ROCE | (%) | 9.39 | 11.19 | 14.98 |
| Total Debt/Tangible Net Worth | Times | 0.85 | 1.44 | 0.93 |
| PBDIT/Interest | Times | 2.11 | 2.09 | 2.10 |
| Total Debt/PBDIT | Times | 2.98 | 4.31 | 2.32 |
| Gross Current Assets (Days) | Days | 214 | 217 | 147 |

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

| Date | Name of Facilities | Term | Amount (Rs. Crore) | Ratings/ Outlook |
|---------------|-----------------------|------------|--------------------|---|
| 15 Nov, 2017 | FDBP/FUDBP | Short Term | 35.00^^ | SMERA A3/Stable (Issuer not co-operating)* |
| | FDBP/FUDBP (Proposed) | Short Term | 4.00 | SMERA A3/Stable (Issuer not co-operating)* |
| 12 Sept, 2016 | FDBP/FUDBP | Short Term | 35.00^^ | SMERA A3/Stable (Suspension Revoked, Rating Assigned) |
| | FDBP/FUDBP (Proposed) | Short Term | 4.00 | SMERA A3/Stable (Suspension Revoked, Rating Assigned) |
| 17 May, 2016 | FDBP/FUDBP | Short Term | 35.00^^ | SMERA A3/Stable (Suspended) |
| 04 Mar, 2015 | FDBP/FUDBP | Short Term | 35.00^^ | SMERA A3/Stable (Upgraded from SMERA A4+/Stable) |
| 18 Feb, 2014 | Packing Credit | Short Term | 14.00^ | SMERA A4+/Stable (Assigned) |
| | FDBP/FUDBP | Short Term | 6.00^ | SMERA A4+ (Assigned) |

| | | | | |
|--|---------------------------|------------|------|--------------------------------|
| | Bank Guarantee | Short Term | 0.50 | SMERA A4+/Stable (Assigned) |
| | Forward Contract Exposure | Short Term | 0.80 | SMERA A4+/Stable (Assigned) |
| | Non Fund based | Short Term | 1.38 | SMERA A4+/Stable (Assigned) |

[^]Packing credit and bill discounting facility are interchangeable

^{^^} Enhanced from Rs.22.68 crore; includes Packing Credit as a sublimit to the extent of Rs.25.00 crore, FDB/E (O/NPBL) as a sublimit to the extent of Rs.15.00 crore and FDB/E (Discount document) as a sublimit to the extent of Rs.7.00 crore.

*The issuer did not co-operate; based on best available information.

*Annexure – Details of instruments rated:

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/ Outlook |
|------------------------|------------------|-------------|---------------|-------------------------------|------------------------------------|
| FDBP/FUDBP | N.A | N.A | N.A | 35.00 ^{^^} | SMERA A3 (Reaffirmed) |
| Proposed Fund based | N.A | N.A | N.A | 4.00 | SMERA BBB -/Negative (Assigned) |

^{^^} Enhanced from Rs.22.68 crore; includes Packing Credit as a sublimit to the extent of Rs.25.00 crore, FDB/E (O/NPBL) as a sublimit to the extent of Rs.15.00 crore and FDB/E (Discount document) as a sublimit to the extent of Rs.7.00 crore.

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

| Analytical | Rating Desk |
|--|---|
| Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 Email: suman.chowdhury@smera.in Shashikala Hegde, Senior Rating Analyst, Tel: 022-67141321 Email: shashikala.hegde@smera.in | Varsha Bist Manager- Rating Desk Tel: 022-67141160 Email: varsha.bist@smera.in |

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: *A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.*