

Press Release

Knitex Textiles Private Limited

March 29, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 5.30 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 5.30 crore bank facilities of Knitex Textiles Private Limited (KTPL). The outlook is '**Stable**'.

The reaffirmation of the rating reflects modest and fluctuating revenues in line with the expectations, working capital intensive operations and thin profitability. However, the ratings continue to reflect KTPL's comfortable financial risk profile and long operational track record of the promoters in the industry.

The Mumbai based KTPL, incorporated in 1999 is primarily engaged in manufacturing of readymade garments. The company is presently managed by Mr. Hiten Sheth (Director) who has around 25 years of experience in textile industry. The manufacturing unit is located at Tirupur (Tamil Nadu) with an installed capacity of 3 lakhs pieces per year.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the KTPL to arrive at this rating.

Key Rating Drivers

Strengths

- Long track record of operations and experienced management**

KTPL was established as a partnership firm in 1993 and was converted into private limited company in 1999. The company is promoted by Mr. Gunvantrai Seth. Mr. Hiten Seth (Director) has around 25 years of experience in the textile industry. Long track record of operations helped the company in maintaining healthy relationship with the customers as well suppliers. Acuite believes that experienced management and the long operational track record is expected to support in maintaining the business risk profile over the medium term

- Comfortable financial risk profile**

The financial risk profile of the company is comfortable marked by healthy gearing (debt to equity), total outside liabilities to total net worth (TOL/TNW), and debt protections metrics though partly constrained by modest net worth. Gearing is healthy at 0.51 times as on 31 March, 2018 though deteriorated from 0.06 times as on 31 March, 2017. TOL/TNW is comfortable at 1.26 times as on 31 March, 2018 as against 0.70 times as on 31 March, 2017. Net worth is modest at Rs.4.62 crore as on 31 March, 2018 as against Rs.4.41 crore as on 31 March, 2017. Of the total debt of Rs.2.34 crore, unsecured loan constitute Rs.0.12 crore and short term debt of Rs.2.22 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are comfortable at 4.09 times and 0.12 times respectively in FY2018. The company reported cash accruals of Rs.0.29 crore for FY2018; and its cash accruals are expected in the range of Rs.0.40-0.50 crore over the medium term, against nil repayment obligations. Acuite believes that the financial risk profile of the company is expected to be comfortable over the medium term in the absence of major debt funded capital expenditure.

Weaknesses

• Modest scale of operations

Revenues of KTPL are modest and fluctuating for the last three years through FY2018. Revenues stood at Rs.14.69 crore for FY2018 as against Rs.19.34 crore in FY2017 and Rs.17.41 crore for FY2016. The company has made revenue of Rs.17.03 crore during April 2018 to January 2019 and is expecting revenues of Rs.19.00 crore for FY2019. Further, the company reported modest net profit of Rs.0.21 crore in FY2018 as against Rs.0.17 crore in FY2017. Acuite believes that the ability of the company to improve the scale of operations while improving the profitability would be the key rating sensitivity factor over the medium term.

• Working capital intensive operations

Operations of the company are working capital intensive marked by high gross current assets (GCA) at 193 days in FY2018 as against 99 days in FY2017. This is on account of stretch in inventory cycle to 101 days in FY2018 as against 39 days in FY2017. Debtors cycle is moderate at 40-50 days for the last three years through FY2018. Increase in inventory cycle is due to delay in acceptance of order from the client during March 2018. However, Acuite believes that the working capital cycle is expected to be moderate over the medium term.

• Highly competitive and fragmented industry

KTPL is operating in a highly competitive and fragmented textile industry with high competition from several organised and unorganised players operating in industry due to limited entry barriers.

Liquidity Position:

Liquidity of KTPL is moderate marked by moderate cash accruals. It has reported cash accruals of Rs.0.29 crore in FY2018 and is expected to be in the range of Rs.0.42-0.50 crore over the medium term. Gross current assets (GCA) are high at 193 days in FY2018 as against 99 days in FY2017 on account of high inventory days. The company has cash and bank balances of Rs.0.29 crore. Working capital utilisation is about 73 per cent for the last six months through January 2019. Acuite believes that the liquidity profile continues to be moderate supported by moderate accruals and in the absence of major debt funded capital expenditure and repayment obligations.

Outlook: Stable

Acuite believes that KTPL will maintain a 'Stable' outlook and benefit from its experienced management and healthy relationships with customers and suppliers. The outlook may be revised to 'Positive' in case of sustained increase in scale of operations and improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of stretch in its working capital cycle leading to deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	14.69	19.34	17.41
EBITDA	Rs. Cr.	0.55	0.49	0.42
PAT	Rs. Cr.	0.21	0.17	0.14
EBITDA Margin	(%)	3.77	2.53	2.41
PAT Margin	(%)	1.46	0.88	0.81
ROCE	(%)	8.73	9.01	14.64
Total Debt/Tangible Net Worth	Times	0.51	0.06	0.19
PBDIT/Interest	Times	4.09	2.95	2.81
Total Debt/PBDIT	Times	4.01	0.54	1.81
Gross Current Assets (Days)	Days	193	99	135

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Jan-2018	Packing Credit	Short Term	4.80	ACUITE A4+ (Reaffirmed)
	Proposed Letter of Credit	Long Term	0.50	ACUITE BB- / Stable (Reaffirmed)
02-Nov-2016	Packing Credit	Short Term	4.80	ACUITE A4+ (Assigned)
	Proposed Letter of Credit	Long Term	0.50	ACUITE BB- / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	*4.80	ACUITE A4+ (Reaffirmed)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB- (Reaffirmed)

*Sub limit-Packing Credit of 2.23 crore

#Standby limit under Baroda gold card scheme

Contacts

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About Acuité Ratings & Research:

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