

Press Release

Knitex Textiles Private Limited

June 09, 2020



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and the short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the above-mentioned bank facilities of KNITEX TEXTILES PRIVATE LIMITED. The outlook is '**Stable**'.

The rating reaffirmation accounts for comfort drawn on operational track record of promoters, modest scale of operations and moderate financial risk profile. The rating however remains constrained on account of customer concentration, fluctuating margins and working capital intensive operations.

Mumbai-based, KTPL was incorporated in 1999 by Mr. Gunvantrai Seth and his son Mr. Hiten Seth (Director) who has around 25 years of experience in the textile industry. The company is engaged in manufacturing and exporting of readymade garments. Export accounts for ~95 percent of total sales. The Company exports to Italy and Middle East Countries like Egypt, Iraq, Iran, etc. to name a few. Their manufacturing unit is located at Tirupur (Tamil Nadu) with an installed capacity of 3 lakhs pieces per year utilized at 80 to 90 percent capacity.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of KTPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced promoters**

KTPL is in the said line of business since 1993. The company was established as a partnership firm in 1993 and was converted into a private limited company in 1999. The director's viz Mr. Gunvantrai Seth and his son Mr. Hiten Seth (Director) have around 25 years of experience in the said line of business. The extensive experience coupled with long track record of operations has enabled the company forge healthy relationships with customers and suppliers. The Company has shown growth in revenues, however modest, by registering ~Rs.21 Cr in FY2019 against Rs.14.69 Cr in FY2018. The Company for FY2020 (Prov) has registered revenues of ~Rs.15 Cr. The Company accounts for 90 percent of its revenue from exports and remaining from domestic sales. Since, the company's turnover is export dominated it is further likely to be impacted due to the outbreak of COVID and operations have also remained subdued during April and May due to lockdown. Acuité believes that though the company's operations are expected to remain subdued in Q1FY2021 due to the outbreak of COVID – 19, it will however continue to benefit from its established presence in the aforementioned industry and the directors' demonstrated ability to scale up the operations across various cycles.

- **Moderate financial risk profile**

Financial risk profile of the company is moderate marked by modest net worth, comfortable gearing (debt to equity ratio), and total outside liabilities to total net worth (TOL/TNW), partly constrained by moderate debt protection metrics. The gearing is comfortable at 0.54 times as on 31 March, 2019 as against 0.51 times as on 31 March, 2018. TOL/TNW is at 1.25 times as on 31 March, 2019 as against 1.26 times as on 31 March, 2018. However, the net worth of the company stood modest at Rs.4.93 Cr as on 31 March, 2019 as against Rs.4.62 Cr as on 31 March, 2018. Of the total debt of Rs.2.67 Cr as on 31 March, 2019, unsecured loans from directors/promoters stood at Rs.0.25 Cr and short-term debt stood at Rs.2.41 Cr. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 2.65 times and 0.15 times

respectively in FY2019. Acuité believes that, the financial risk profile is expected to improve marginally over the medium term and the financial risk profile is expected to remain moderate on account of modest net worth and modest cash accruals against no repayment obligations for the medium term.

Weaknesses

- **Working capital intensive operations**

KTPL's operations have improved but are still working capital-intensive as evident from gross current asset days of 140 days in FY2019 as against 188 days in FY2018. The high GCA days is majorly dominated by the increase in debtor's days. The debtor's days were recorded at 48 days for FY2019 as against 42 days in FY2018. The credit period given to the customers is 90 days for Middle East Countries clients and in case of Italy clients the company receives payment within 30 days. The inventory days stood at 80 days in FY2019 as against 101 days in FY2018. The company normally maintains an inventory of 80 days to 90 days. Acuité believes that the working capital operations are expected to remain high with respect to the debtor cycle and which will remain a key rating sensitivity.

- **Modest scale of operations**

KTPL has been in operation for more than two decades and has moderate scale of operations. The Company has an operating capacity of 3 lac pieces per year which is utilized at 90 percent capacity and has generated operating income of Rs.21 Cr in FY 2019 as against ~Rs.15 Cr in the previous year. The Company has reported revenue of ~Rs.15 Cr for FY2020.

- **Highly competitive and fragmented industry**

KTPL is exposed to competition from several organized and non-organized players operating in industry due to limited entry barriers and less capital intensive nature of the industry.

Rating Sensitivities

- Scaling up operations while achieving sustained improvement in topline and margins
- Stretch in its working capital management leading to liquidity constraints

Material Covenants

None

Liquidity: Stretched

Liquidity of KTPL is stretched marked by working capital intensive operations as reflected by GCA days of 140 days in FY2019. The Company has modest set of cash accruals which stood at Rs.0.39 Cr in FY2019 against nil debt-repayment obligations. Further, the cash accruals are expected to be at Rs.0.20 Cr to Rs.0.34 Cr for the medium term. The company had unencumbered cash and bank balances of Rs.0.01 crore as on March 31, 2019. The current ratio stands at 1.70 times as on 31st March, 2019. Acuité believes that the liquidity profile is expected to remain stretched on account of highly working capital-intensive operations and modest cash accruals.

Outlook: Stable

Acuité believes that KTPL will maintain 'Stable' outlook in the medium term on account of experienced management and healthy relationships with customers and suppliers. The outlook may be revised to 'Positive' if the company registers higher than expected growth in revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or in case of any further stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	20.51	14.69
PAT	Rs. Cr.	0.30	0.21
PAT Margin	(%)	1.47	1.46
Total Debt/Tangible Net Worth	Times	0.54	0.51
PBDIT/Interest	Times	2.65	4.09

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto three years)

Date	Name of Instrument/ Facility	Term	Amount (Rs. Cr)	Ratings/Outlook
29-Mar-2019	Bills Discounting	Short Term	4.80	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	0.50	ACUITE BB- /Stable (Reaffirmed)
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
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	4.80	ACUITE A4+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB- /Stable (Reaffirmed)

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About Acuité Ratings & Research:

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