

## Press Release

### Knitex Textiles Private Limited

November 25, 2022



## Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	0.50	ACUITE BB   Stable   Reaffirmed	-
Bank Loan Ratings	4.80	-	ACUITE A4+   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	5.30	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

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

### Rationale for rating reaffirmation

The rating reaffirmation of KTPL takes into account improved albeit stable operating performance and moderate financial risk profile. It also draws comfort from company's experienced management and established track record of operations. The rating is however constrained by the company's working capital intensive and modest scale of operations, customer concentration risk and presence in the highly competitive industry. Ability of the company to improve its scale of operations while maintaining profitability and to expand its customer base in order to mitigate the revenue concentration risk will remain a key rating sensitivity factor.

### About the Company

KTPL incorporated in the year 1999, is a Mumbai based company engaged in manufacturing and exporting of inner & outerwear knitted hosiery garments. ~85 percent of the products are exported to chain stores in Italy & Middle East through their own network of agents in these countries while ~15 percent are sold in domestic market under its own "Ecott" brand. The manufacturing unit is located at Tirupur (Tamil Nadu) with an installed capacity of producing 3 lakh pieces per annum which is utilized at ~98 percent capacity.

### Analytical Approach

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

### Key Rating Drivers

### Strengths

### **Experienced management and established track record of operations**

KTPL is engaged in manufacturing and exporting of inner & outerwear knitted hosiery garments. It has an established operational track record of over two decades. It is promoted by Mr. Hiten Seth and Mr. Atul Ashar who possess more than two decades of experience in the field of knitted hosiery garments. The promoters are being supported by its team of experienced professionals in managing day to day operations of KTPL. The extensive experience of the promoters has enabled KTPL to establish a healthy relationship with its customers and suppliers.

Acuité believes that KTPL will continue to benefit from its experienced management and established track record of operations.

### **Moderate financial risk profile**

Financial risk profile of KTPL is moderate marked by modest networth, moderate gearing and average debt protection metrics. The networth of the company stood modest at the same level of Rs.5 Cr as on 31 March, 2022 and 31 March, 2021 on account of low accretion to reserves. The gearing (debt-equity) stood moderate at 0.74 times as on 31 March, 2022 as against 0.67 times as on 31 March, 2021 on account of increase in the short term borrowings. The gearing of the company is however expected to remain low over the medium term on account of absence of any debt funded capex plans in the future. The total debt of Rs.3.88 Cr as on 31 March, 2022 consists of unsecured loans from directors of Rs.0.47 Cr and short term borrowings of Rs.3.41 Cr.

The interest coverage ratio and DSCR stood improved at 4.06 times and 3.63 times for FY2022 as against 3.25 times and 3.04 times for FY2021. The Net Cash Accruals to Total debt stood at 0.07 times for FY2022 as against 0.06 times for FY2021. The Total outside liabilities to Tangible net worth stood marginally high at 1.52 times for FY2022 as against 1.42 times for FY2021.

Acuité believes that the financial risk profile of KTPL will remain moderate over the medium term on account of low debt levels vis-à-vis modest tangible net worth and average debt protection metrics.

### **Weaknesses**

#### **Working capital intensive operations**

The operations of KTPL are moderately working capital intensive marked by its Gross Current Assets (GCA) of 174 days for FY2022 as against 187 days for FY2021. This is primarily on account of high inventory days and receivable cycle. The inventory days stood at almost same level of 70 days in FY2022 as against 69 days in FY2021 as the company generally maintains an average inventory holding of 2 to 3 months. On the other hand, the receivable days stood improved at 76 days in FY2022 as against 93 days in FY2021 on account of improved realisation from the debtors during the year as well as the creditor days stood improved at 53 days in FY2022 as against 63 days in FY2021.

Acuité believes that KTPL's ability to maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

### **Modest scale of operations and customer concentration risk**

KTPL has a modest scale of operations reflected in the revenue of Rs. 23 Cr. in FY2022 against Rs.18 Cr. in FY2021. The company's ability to absorb any unexpected losses is also constrained given its modest networth at the same level of Rs.5 Cr in FY2022 and FY2021. KTPL is also susceptible to customer concentration risk as ~85 percent of the company's products are exported to chain stores only in Italy & Middle East. This makes the company highly susceptible to business risk profile of its top clients.

Acuité believes that the ability of the company to expand its customer base in order to mitigate the revenue concentration risk will be a key rating sensitivity factor.

### **Highly competitive industry and susceptibility of margins to volatility in raw material prices**

The garment industry is a highly fragmented industry and presence of large number of organised and unorganised players has created high competition in the industry. KTPL faces competition from large players as well as numerous players in the unorganised segment. The entry barriers are low thereby leading to stiff competition for players like KTPL. Further, operating and profitability margins are expected to remain susceptible to fluctuations in the raw material prices like cotton and yarn.

### Rating Sensitivities

- Ability to improve scale of operations while maintaining profitability
- Ability to maintain an efficient working capital cycle
- Ability to expand its customer base in order to mitigate the customer concentration risk

### Material covenants

None

### Liquidity position - Adequate

KTPL has adequate liquidity position marked by adequate net cash accruals (NCA) to its no maturing debt obligations. The company generated cash accruals in the range of Rs.0.12 Cr to Rs.0.26 Cr during FY2020 to FY2022 against no repayment obligation during the same period. Going forward the NCA are expected in the range of Rs.0.26 Cr to Rs.0.28 Cr for period FY2023-FY2024 against no repayment obligation for the same period. The working capital operations of the company are moderately intensive marked by its gross current asset (GCA) days of 174 days for FY2022 as against 187 days for FY2021 on account of high inventory and receivables cycle during the same period. The average bank limit utilization for 6 months' period ended August 2022 stood moderate at ~78 percent. Current ratio stands at 1.63 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.0.06 Cr in FY2022.

Acuité believes that the liquidity of KTPL is likely to remain adequate over the medium term on account of adequate cash accruals against no maturing debt obligations.

### Outlook: Stable

Acuité believes that KTPL will maintain 'Stable' outlook over the medium term on account of its experienced management with established track record of operations and moderate financial risk profile. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	22.66	18.38
PAT	Rs. Cr.	0.19	0.11
PAT Margin	(%)	0.85	0.58
Total Debt/Tangible Net Worth	Times	0.74	0.67
PBDIT/Interest	Times	4.06	3.25

### 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>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Sep 2021	Proposed Bank Facility	Long Term	0.50	ACUITE BB   Stable (Upgraded from ACUITE BB-   Stable)
	Bills Discounting	Short Term	4.80	ACUITE A4+ (Reaffirmed)
09 Jun 2020	Proposed Bank Facility	Long Term	0.50	ACUITE BB-   Stable (Reaffirmed)
	Bills Discounting	Short Term	4.80	ACUITE A4+ (Reaffirmed)
29 Mar 2019	Proposed Bank Facility	Long Term	0.50	ACUITE BB-   Stable (Reaffirmed)
	Bills Discounting	Short Term	4.80	ACUITE A4+ (Reaffirmed)

**Annexure - Details of instruments rated**

<b>Lender's Name</b>	<b>ISIN</b>	<b>Facilities</b>	<b>Date Of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Complexity Level</b>	<b>Quantum (Rs. Cr.)</b>	<b>Rating</b>
Bank of Baroda	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	4.80	ACUITE A4+   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE BB   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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