Press Release
Knitex Textiles Private Limited
February 14, 2024
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	-	-

Rating Rationale

Acuité 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 draws comfort from KTPL's experienced management with an established operational track record of over two decades in the manufacturing and exporting of inner & outwear knitted hosiery garments as well as the financial risk profile of the company which continues to remain moderate marked by its reduced debt levels, low gearing and moderate debt protection metrics.

The rating is however constrained on account of KTPL's modest scale of operations of Rs.25 Cr for FY2023 as against Rs.23 Cr for FY2022 along with deterioration in the profitability margins. The operating margin of the company moderated marginally to 1.68 percent in FY2023 as against 1.71 percent in FY2022 on account of increase in the cotton yarn prices during the year, whereas the net profit margin of the company also declined at 0.16 percent in FY2023 as against 0.85 percent in FY2022 due to an increase in the interest cost during the year.

Going forward, ability of KTPL to improve its operating performance while maintaining an efficient working capital cycle and moderate financial risk profile will remain key rating sensitivity factors.

About the Company

Knitex Textiles Private Limited (KTPL) incorporated in the year 1999, is a Mumbai based company engaged in manufacturing and exporting of inner & outwear 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 over the online e-commerce platforms. 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.

Unsupported Rating

Not applicable

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

Experienced management and established track record of operations

KTPL has an established operational track record of over two decades in manufacturing and exporting of inner & outwear knitted hosiery garments. The company 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 net worth, low gearing and moderate debt protection metrics. The tangible net-worth of the company stood modest at similar level of Rs.5 Cr as on 31 March, 2023 and as on 31 March, 2022 due to low accretion of profits to reserves. The gearing (debt-equity) stood improved at 0.28 times as on 31 March, 2023 as against 0.74 times as on March 31, 2022 due to its reduced debt levels to Rs.1.47 Cr in FY2023 as against Rs.4 Cr in FY2022. The total debt of Rs.1.47 Cr as on March 31, 2023 comprises of unsecured loans from directors of Rs.0.14 Cr and the short-term bank borrowings of Rs.1.33 Cr. The gearing is expected to improve further and remain low over the medium term in the absence of any significant debt-funded capex plan.

The interest coverage ratio and DSCR stood moderated to 1.42 times and 1.39 times in FY2023 as against 4.06 times and 3.63 times in FY2022. The Net Cash Accruals to Total debt stood at 0.08 times for FY2023 as against 0.07 times for FY2022. The Total outside liabilities to Tangible net worth stood improved at 0.95 times for FY2023 as against 1.52 times for FY2022. The Debt-EBITDA ratio stood improved at 3.45 times for FY2023 as against 9.67 times for FY2022.

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

Weaknesses

Modest scale of operations and decline in profitability margins

KTPL's scale of operations remained modest at Rs.25 Cr for FY2023 as against Rs.23 Cr for FY2022 along with deterioration in the profitability margins. The operating margin of the company stood moderated at 1.68 percent in FY2023 as against 1.71 percent in FY2022 on account of increase in the cotton yarn prices during the year which is a major raw material used by the company for manufacturing the garments, whereas the net profit margin of the company also stood declined at 0.16 percent in FY2023 as against 0.85 percent in FY2022 due to an increase in the interest cost during the year.

For the current year as of December 2023, KTPL has achieved lower revenue of ~Rs.12 Cr as against ~Rs.18 Cr as of December 2022 on account of reduced prices in the overseas market and therefore it is estimated that the company will achieve subdued revenue by the end of the year.

Acuité believes that the ability of KTPL to improve its scale of operations and profitability margins will remain a key rating sensitivity factor.

Moderately intensive working capital operations

The working capital operations of KTPL are moderately intensive marked by its improved albeit high Gross Current Assets (GCA) of 112 days for FY2023 as against 174 days for FY2022. The inventory cycle of the company stood improved at 29 days for FY2023 as against 70 days for FY2022 whereas the receivables cycle stood at 74 days in FY2023 as against 76 days in

FY2022. In general, the company follows an average inventory cycle of nearly two months and provides credit period of upto 45 days to its domestic customers and upto 120 days to its export customers. Further, the creditors cycle of the company stood improved at 39 days for FY2023 as against 53 days for FY2022. The bank limits remained unutilised for the last 6 months' period ended December 2023.

Acuité believes that the ability of KTPL to maintain an efficient working capital cycle over the medium term will remain 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, the company's 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 the scale of operations and profitability margins
- Ability to restrict any significant stretch in working capital cycle

Liquidity Position - Adequate

KTPL has adequate liquidity position marked by sufficient net cash accruals (NCA) to its nil maturing debt obligations. The company generated cash accruals in the range of Rs.0.12 Cr to Rs.0.26 Cr during FY2021 to FY2023 against no debt repayment obligation during the same period. Going forward, the NCA are expected in the range of Rs.0.17 Cr to Rs.0.20 Cr for the period FY2024-FY2025 against no debt repayment obligation during the same period. The working capital operations of the company are moderately intensive marked by its gross current asset (GCA) days of 112 days for FY2023. The bank limits remained unutilised for the last 6 months' period ended December 2023. Current ratio stands at 1.85 times as on 31 March 2023. The cash and bank balance of the company remained nil in FY2023.

Acuité believes that the liquidity of KTPL is likely to remain adequate over the medium term on account of sufficient cash accruals against its 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 an established track record of operations and moderate financial risk profile. The outlook may be revised to 'Positive' in case of higher-than-expected 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	25.35	22.66
PAT	Rs. Cr.	0.04	0.19
PAT Margin	(%)	0.16	0.85
Total Debt/Tangible Net Worth	Times	0.28	0.74
PBDIT/Interest	Times	1.42	4.06

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

Any other information
None

Applicable Criteria
• Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
• Entities In Manufacturing Sector:- 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, Acuité 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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Nov 2022	Bills Discounting	Short Term	4.80	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	0.50	ACUITE BB | Stable (Reaffirmed)
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)

Annexure - Details of instruments rated

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