

Press Release

Classic Knits India Private Limited (CKIPL)

10 February, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 67.00 Cr.
Long Term Rating	SMERA BB-/Stable (Assigned)
Short Term Rating	SMERA A4 (Assigned)

* Refer Annexure for details

SMERA has assigned long term rating of '**SMERA BB-**' (read as **SMERA double B Minus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 67.00 crore bank facilities of CLASSIC KNITS INDIA PRIVATE LIMITED (CKIPL). The outlook is '**Stable**'.

The Tirupur based CKIPL was incorporated in 2010 after a demerger from Royal Classic Mills Private Limited. The company is engaged in the manufacturing and export of yarn, fashion undergarments, T-Shirts, polo shirts, sweatshirts and lounge wear for men and women. However, from FY2018 onwards, revenues were generated from garment manufacturing and exports. The company has two manufacturing facilities at Tirupur and Vagarai in Tamil Nadu with installed capacity of 1.62 crore pieces per annum.

Key Rating Drivers

Strengths:

Experienced management

The Managing Director, Ms. Parvatha Varthini has more than a decade of experience in the textile industry. She is joined by Mr. Gautham (Director), who possesses extensive experience in the textile industry. SMERA believes that the company will benefit from the experienced management in the medium term.

Established relationship with customers

CKIPL caters to a reputed client base including Corsina Europe GMBH (Germany), Hanes INC (USA), Canadelle (Canada) among others. Further, during FY2017, the company began to focus on the domestic market and added Aditya Birla Fashion and Retail Limited to its customer portfolio.

Streamlining of business

During 9MFY2018, the company sold its loss making spinning unit and used the sale proceeds for repayment of term loans and working capital loans. In 9MFY2018, the entire revenue was

derived from its garment division which reported revenue of Rs. 92.16 crore and net profit of Rs. 0.83 crore (On provisional basis).

Weaknesses

Decline in revenues and profit margins

Revenues of the company declined Y-o-Y from Rs. 143.06 crore in FY2015 to Rs. 83.40 crore in FY2017. This is mainly on account of poor performance of its spinning mill division which led to decline in operating margins from 15.83 percent in FY2015 to 10.36 percent in FY2017. The company made net losses on account of high finance cost during FY2015-FY2017.

Weak financial risk profile

The financial risk profile is weak marked by moderate net worth of Rs. 22.24 crore as on 31 March, 2017 as against Rs. 32.22 crore as on March 31, 2016. The net worth declined on account of net losses. The gearing stood weak at 5.38 times as on 31 March, 2017 and 3.70 times as on 31 March, 2016 due to huge term loans of Rs.32.69 crore, unsecured loans of Rs. 8.39 crore and working capital loans of Rs. 78.69 crore. However, during 9MFY2018, the company sold the spinning mill division and paid back its term loans of Rs 23.08 crore and part of working capital loans. As on December 31, 2017, the term loans stood at Rs.9.61 crore and working capital loans stood at Rs. 41.54 crore.

For FY2017, ICR (Interest Coverage Ratio) stood at 0.68 times as against 1.11 times for FY2016. TOL/TNW stood at 6.45 times for FY2017. However, SMERA believes that the financial risk profile will improve in FY2018 on account of repayment of term loans, working capital loans and sale of the loss making spinning mill division.

Working capital intensive operations

The operations have been working capital intensive evident from the high Gross Current Asset days of 470 in FY2017 compared to 285 days in FY2016. This is on account of high inventory holding days of 400 in FY2017 and 249 in FY2016. Further, the working capital limits were fully utilised during the last six months ended December 31, 2017.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of CKIPL to arrive at the rating.

Outlook – Stable

SMERA believes that CKIPL will maintain a Stable outlook over the medium term on account of its experienced management in the textile industry. The outlook may be revised to 'Positive' if the company registers significant growth in revenue and profitability while improving its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the liquidity profile or financial risk profile deteriorates owing to higher than envisaged working capital borrowings.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	83.40	134.15	143.06
EBITDA	Rs. Cr.	8.64	18.47	22.65
PAT	Rs. Cr.	-9.97	-5.30	-4.67
EBITDA Margin	(%)	10.36	13.77	15.83
PAT Margin	(%)	-11.96	-3.95	-3.26
ROCE	(%)	1.22	5.23	14.85
Total Debt/Tangible Net Worth	Times	5.38	3.70	3.33
PBDIT/Interest	Times	0.68	1.11	1.35
Total Debt/PBDIT	Times	13.54	7.22	5.35
Gross Current Assets (Days)	Days	470	285	270

Any other information:

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

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

India Ratings revised the ratings of the company to non-cooperating category, with the following rationale on February 06, 2017: India Ratings and Research (Ind-Ra) has migrated Classic Knits India Private Limited's Long-Term Issuer Rating to the non-cooperating category. The issuer did not participate in the rating exercise, despite continuous requests and follow-ups by the agency. Therefore, investors and other users are advised to take appropriate caution while using these ratings. The rating will now appear as 'IND D (ISSUER NOT COOPERATING)' on the agency's website.

Rating History (Upto last three years)

Not Applicable

*Annexure - Details of instruments rated

Name of the facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
EPC/PCFC/FBP/ FBN/FBD/EBR	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA A4
CC- PCL/PCFC/FDB N/FDBP/FDBD	Not Applicable	Not Applicable	Not Applicable	*34.00	SMERA BB-/Stable
Corporate Loan	Not Applicable	Not Applicable	Not Applicable	9.61	SMERA BB-/Stable
Proposed working capital Loans	Not Applicable	Not Applicable	Not Applicable	15.39	SMERA A4

*Sub limits-FDBN/FDBP/FDBD/PSCFC to the extent of Rs. 15.50 crore.

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ABOUT SMERA

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