

Press Release

Classic Knits India Private Limited

May 13, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 67.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité 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**) to the Rs. 67.00 crore bank facilities of CLASSIC KNITS INDIA PRIVATE LIMITED (CKPL). The outlook is '**Stable**'.

The rating reaffirmation is based on experienced promoters, stable operating margins and reputed clientele in the apparel industry. Its revenues from garment segment are stable at around Rs.70 crore over the past three years through FY2019. CKPL has reputed clientele include Paradise Limited, Kmart Australia Limited, Hannes Inc., Canadelle, Exquisite Apparel Corp, USA among others in overseas market. In domestic market, they are deepening their relationship with Aditya Birla Fashions and foraying into new relations such as Page Industries Limited, 'Under Wonder'-an e-commerce client. Its operating margins are moderate at about 15 per cent compared to others due to brand recall. Going forward, with penetration into new markets and new client addition, revenue profile is expected to improve to about Rs.90 -125 crore over the medium term. Further, successful hiving off its spinning division in FY2018 is also expected to support in improvement of its financial risk profile, though it resulted in non-operating loss of about Rs.14.7 crore in FY2018. However, the ratings are constrained by below-average financial risk profile and working capital intensive operations.

CKPL, incorporated in 2010, is engaged in manufacturing and exporting of fashion undergarments, high fashion t-shirts, polo shirts, sweatshirts, and lounge wear for men and women. It was founded by Mr. R. Shanmugam and is currently under the directorship of Mrs. Parvatha Varthini (Founder's wife) and Mr. S. Goutham (Founder's son). The company currently has an installed capacity of 1.62 crore pieces of garments per annum of which 70-75 percent is utilised. The manufacturing facilities are located in Tirupur and Vagarai (Tamil Nadu).

Analytical Approach

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

Key Rating Drivers

Strengths

• Experience of promoters in the apparel industry

CKPL was founded by Mr. R. Shanmugam and now managed by Mrs. Parvatha Varthini Shanmugam and Mr. S. Goutham. 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. CKPL caters to a reputed client base including Corsina Europe GMBH (Germany), Hannes INC (USA) and Canadelle (Canada) among others. Further, the company has also receives order from reputed Indian clients including Aditya Birla Fashion and Retail Limited and Page Industries Limited. The promoters, to focus on the brand value and end-garment, have hived off its spinning division. With regular addition of clientele and new markets, its revenues from the readymade garments (RMG) are expected to improve to Rs.90-125 crore over the medium term. It derives about 50 per cent revenue from exports and rest from domestic market. Acuité believes that CKPL is expected to enjoy the benefit of its brand presence, diversified markets and clientele.

Weaknesses

• Below-average financial risk profile

The financial risk profile is marked by high gearing (debt to equity), high total outside liabilities to total net worth (TOL/TNW), and below-average debt protection metrics. The gearing and TOL/TNW are high at 2.78 and 4.02 times (Provisional) as on March 31, 2019 against 2.75 and 4.22 times respectively as on March 31, 2018. The net worth is modest at Rs.19.88 crore as on March 31, 2019 as against Rs.19.50 crore as on March 31, 2017. Of the total debt of Rs.55.32 crore, short term debt consists of Rs.48.42 crore and long term debt of Rs.6.91 crore. The company did not incur any capital expenditure as such in the FY2018 or FY2019.

Due to the sale of the spinning division, the long term liabilities with banks came down from Rs.32.71 crore as on 31 March, 2017 to Rs.9.52 crore as on 31 March, 2018. During the same period, the short term liabilities with banks also reduced from Rs.78.69 crore to Rs.44.16 crore. The company plans no capex as such for coming two years. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are below-average at 1.35 times and 0.05 times respectively in FY2019. Net cash accruals for FY2019 stood at Rs.3.00 crore. Further, the company's cash accruals are expected to improve and be in the range of Rs.5.00-7.00 crore with repayment obligations amounting to Rs.3.00-3.50 crore for the period of FY2020-22.

Acuité believes that with expected improvement in revenues and moderate profitability, the financial risk profile is expected to improve to moderate levels over the medium term.

• Working capital intensive operations

The company's operations are working capital intensive as evident from its Gross Current Assets (GCA) of 384 days as on March 31, 2019 (Provisional) as against 222 days as on March 31, 2018. High GCA is caused mainly due to high inventory holding period of 340 days as on 31 March, 2019 (Provisional) compared to 164 days in 31 March, 2018. The increase in inventory holding period is caused mostly due to storage of raw material and finished item to cater to specific and immediate orders from buyers to avoid shipment delays. Also, the entire manufacturing process involves knitting, dyeing, compacting, cutting and other value added processes such as embroidery, printing, among others; which takes about another 90-120 days. The company also holds huge inventory because it gets immediate orders from its export clients and orders from Aditya Birla which requires delivery in short span of about 90-100 days. The company maintains six months of inventory levels, and offers credit of about one month to its clientele; resulted in receivable days of about 42 as on March 31, 2019 (30 days in FY2018). Working capital intensive operations lead to high utilisation of its working capital limits at about 91 percent over the six months ended March 2019. Acuité believes that basis the business model; the operations continue to be working capital intensive over the medium term.

Liquidity Position:

Liquidity profile of CKPL is moderate reflected by high bank line utilisation and moderate accruals. CKPL has reported cash accruals of Rs.3.00 crore in FY2019 (Provisional). It is expected to generate cash accruals in the range of Rs.5.0-7.0 crore over the medium term, against which its repayment obligations are about Rs.3.0-3.5 crore and regular annual capex of about Rs.0.30-0.50 crore. However, working capital intensive operations are expected to weigh on the liquidity. Its working capital limits are highly utilised about 91 per cent for the last six months through March 2019. Acuité believes that working capital intensive operations and moderate accruals are expected to keep the liquidity at moderate levels over the medium term.

Outlook: Stable

Acuité believes that CKPL 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 its revenues while maintaining its profitability and improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any significant stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	72.52	126.14	83.40
EBITDA	Rs. Cr.	11.44	15.83	8.64
PAT	Rs. Cr.	0.96	-12.39	-9.97
EBITDA Margin	(%)	15.77	12.55	10.36
PAT Margin	(%)	1.32	-9.82	-11.96
ROCE	(%)	12.16	-3.58	1.22
Total Debt/Tangible Net Worth	Times	2.78	2.75	3.64
PBDIT/Interest	Times	1.35	0.12	0.68
Total Debt/PBDIT	Times	4.84	46.35	12.59
Gross Current Assets (Days)	Days	384	222	470

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
10-Feb-2018	EPC/PCFC/FBP/FBN/FBD/EBR	Short Term	8.00	ACUITE A4 (Assigned)
	CC-PCL/PCFC/FDBN/FDBP/FDBD	Short Term	34.00^	ACUITE BB-/ Stable (Assigned)
	Corporate Loan	Long Term	9.61	ACUITE BB-/Stable (Assigned)
	Proposed Bank Facility	Long Term	15.39	ACUITE A4 (Assigned)

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

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4 (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	34.00^	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	6.60	ACUITE BB- / Stable (Reaffirmed)
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 (Assigned)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	8.40	ACUITE BB- / Stable (Reaffirmed)

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

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About Acuité Ratings & Research:

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