

Press Release

Knit King Apparels

October 09, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 8.74 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 8.74 crore bank facilities of Knit King Apparels (KKA). The outlook is 'Stable'.

KKA is a Tiruppur-based proprietorship concern established in 2007 by Mr. S. N. Velusamy. The firm is engaged in manufacture and exporting readymade garments primarily to U.K, Kuwait among other countries. The firm has 300 sewing and cutting machines with a capacity to produce 5,000 pieces per day.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Knit King Apparels to arrive at this rating.

Key Rating Drivers:

Strengths

• Experienced management

Mr. S. N. Velusamy has experience of nearly two decades in the readymade garment industry and is involved in the daily operations of the entity. The promoter's experience in the industry helped the firm to establish relationships with several suppliers and customers as is demonstrated by repeat business orders from its clientele including M/s Pepco Poland SP.Z.O.O. (Poland), Faisal Al Rasheed and Partners Group (Kuwait), M/s Debenhams Retail Plc (UK) among others. Though the revenues have been volatile over the last two years for various reasons including de-monetisation, cancellation of orders, however, the situation is expected to improve. The firm has received modest orders in hand of about Rs.15.00 crore as on September 25, 2018, and revenues reported of about Rs.10.00 crore till August/September which gives moderate revenue visibility. Acuité believes that KKA will continue to benefit from its experienced management and established relations with its customers and suppliers over the medium term.

Weaknesses

• Below Average financial 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. Its net worth is modest at about Rs.2.14 crore (Provisional) as on March 31, 2018, which is low on account of modest accretion to reserves. TOL/TNW is high at 3.47 times (Provisional) as on March 31, 2018. The gearing is high at 1.76 times as on March 31, 2018 (Provisional). The debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are at 2.20 times and 0.10 times respectively for FY2018 (Provisional). Acuité believes that the financial risk profile is expected to be at similar levels over the medium term, due to modest scale of operations and low cash accruals vis-à-vis its repayment obligations and its intensive working capital requirement.

• Modest scale of operations coupled with de-growth in operating income in FY2018

The scales of operations are modest in the industry marked by total operating income of Rs.10.11 crore in FY2018 (Provisional) as against Rs.19.82 crore in FY2017 and Rs.25.1 crore in FY2016. The firm has witnessed revenue decline of about 96 percent in FY2018 primarily due to slow-down in readymade garment segment owing to implementation of Goods and Services Taxes (GST), demonetisation and reduction in duty drawback to 2 percent from 7 percent in October 2017, resulting in low sales volume. As a result, there was cancellation of orders to an extent of about Rs.15.00 crore. However, with improving end user demand, the revenues are expected to roll-back and to improve to about Rs.20.00 - 25.00 crore over the medium term.

• Working capital intensive operations

KKA's operations are working capital oriented as reflected in its high Gross Current Asset (GCA) days of 168 as on March 31, 2018 (Provisional). The high GCA is mainly attributed to high inventory of over three months at 109 days, though receivable days are comfortable at about 24 as on March 31, 2018 (Provisional). As the realisations are efficient, resulting in moderate utilisation of its bank lines at about 68 percent over six months through August 2018. Acuite believes that working capital operations continues to be at similar levels over the medium term.

• Competitive and fragmented industry

KKA operates in a highly fragmented industry with limited entry barriers wherein the presence of a large number of organised and unorganised players in the sector limits bargaining power with the customers, besides moderate revenues in the segment. Further, a swift change in the style and tastes of the buyers may result in unsold inventory exerting pressure on the profitability.

Outlook: Stable

Acuite believes that the outlook on KKA will remain 'Stable' over the medium term on account of experienced management and long standing presence in textile business. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while maintaining the profitability and improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in the liquidity owing to any stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	10.16	19.82	25.13
EBITDA	Rs. Cr.	0.66	0.92	0.56
PAT	Rs. Cr.	0.02	0.10	0.11
EBITDA Margin	(%)	6.53	4.64	2.23
PAT Margin	(%)	0.18	0.51	0.42
ROCE	(%)	4.44	4.91	7.57
Total Debt/Tangible Net Worth	Times	1.76	1.57	0.85
PBDIT/Interest	Times	2.20	2.94	2.92
Total Debt/PBDIT	Times	5.44	6.50	7.50
Gross Current Assets (Days)	Days	168	127	139

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

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. Cr.)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	2.74	ACUITE B / Stable

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-40055452 bhavanisankar.oruganti@acuiterratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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