

Press Release

Greetings Knitwears

November 09, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.28.50 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.28.50 crore bank facilities of Greetings Knitwears (GK). The outlook remains '**Stable**'.

Greetings Knitwears (GK) was initially started in 1983 as a partnership firm in the name of Greetings Hosiery Mills (GHM) by Mr. V Rajendran along with his brother Mr. V Gnanasivamoorthy. The firm initially manufactured vests and briefs for the local markets and later in the year 1987, the firm commenced manufacturing of hosiery garments on job work basis to various exporters. Later in the year 1992, the firm name was changed to Greetings Knitwears which currently engaged in manufacturing and direct export of hosiery garments.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of GK to arrive at this rating.

Key Rating Drivers

Strengths

- Extensive experience of the management in the readymade garment industry**

The partnership firm GK was established in 1992 by Mr. V Rajendran along with his brother Mr. V Gnanasivamoorthy who possess more than two decades of experience in the readymade garment industry. The firm currently exports around 99 percent of its products to three countries, i.e. Ireland, France and UK. The extensive experience of the promoters in the aforementioned industry has helped the company to established long term relationship with its customers and suppliers.

Acuite believes that GK will continue to benefit from the promoter's established presence in the readymade garment industry and its improving business risk profile over the medium term.

Weaknesses

- Moderate financial risk profile**

The financial risk profile of the firm is moderate marked by modest net worth of Rs.9.62 crore as on 31 March, 2020 (provisional) as against Rs.9.63 crore as on 31 March, 2019. The gearing (debt-to-equity) ratio stood high at 2.89 times as on 31 March, 2020 (provisional) compared to 2.82 times the same period last year. The total debt of Rs.27.82 crore consists of working capital borrowings of Rs.21.38 crore, secured loan of Rs.6.14 crore and unsecured loan of Rs.0.29 crore from promoters as on 31 March, 2020 (provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 3.74 times as on 31 March, 2020 (provisional) as against 3.79 times as on 31 March, 2019. Interest Coverage Ratio (ICR) deteriorated and stood at 1.48 times in FY2020 (provisional) compared to 1.67 times in FY2019. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.04 times as on 31 March, 2020 (provisional) as compared to 0.05 times in FY2019.

Acuite believes that the financial risk profile of the firm will continue to remain moderate over the medium term in the absence of any major future debt-funded capex.

• Working capital intensive operations

The working capital operations of the firm remained intensive marked by high GCA days of 248 days in FY2020 (provisional) compared to 232 days in FY2019. The inventory and debtors days of the company stood at 163 days and 35 days in FY2020 (provisional) as against 158 days and 38 days same period last year respectively. Subsequently, there was an increase in payables period from 123 days in FY2019 to 131 days in FY2020 (provisional). The working capital requirement of the firm is supported by bank lines which have been utilized around 90 percent in the last six months ended September, 2020.

Acuite believes that the ability of the firm to efficiently manage its working capital requirements will remain a key rating sensitivity.

• Highly fragmented and competitive industry

The firm operates in a highly competitive and fragmented industry and faces tough competition from a large number of organized as well as unorganized players affecting the margins.

Liquidity position: Stretched

The company has stretched liquidity position marked by high gross current asset (GCA) days of 248 days in FY2020 (provisional) and high utilized working capital limits. Working capital requirement is funded through bank lines that have been utilized around 90 percent in the last six months ended September, 2020. Further, the company had NCA of Rs.1.10 crore as against the maturing debt obligation of Rs.0.85 crores in FY2020 (provisional). The cash accruals of GK are estimated to remain around Rs.0.61 - 1.58 crore during 2021-23 while its repayment obligation is estimated to be around Rs.0.85 - 0.84 crore during the same period. The firm maintains unencumbered cash and bank balances of Rs.0.40 crore as on March 31, 2020 (prov.). The current ratio stands average at 1.26 times as on March 31, 2020 (provisional). Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account working capital intensive operations and high utilization of bank limits.

Rating Sensitivities

- Modest scale of operations with improvement in revenue growth and profitability margins
- Deterioration in working capital management leading to stretched liquidity

Material Covenants

None

Outlook

Acuite believes that GK will maintain a stable outlook in the medium term on the back of the extensive experience of the promoter in the business. The outlook may be revised to 'Positive' in case of a significant improvement in revenue and profitability while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the liquidity or financial risk profile on account of large debt-funded capex plan.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	56.49	61.01
PAT	Rs. Cr.	0.42	0.66
PAT Margin	(%)	0.75	1.09
Total Debt/Tangible Net Worth	Times	2.89	2.82
PBDIT/Interest	Times	1.48	1.67

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

Brickwork via its press release on 01st Oct, 2019 has reported the company as BWR BB/BWR A4 Issuer not cooperating on account of non-submission of information for rating surveillance.

Any other information

None

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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. Crore)	Ratings/Outlook
PC/PCFC/FBP/FBN/FBD	Not Applicable	Not Applicable	Not Applicable	19.50	ACUITE A4+ (Assigned)
WCTL	Sep, 2020	7.5%	Aug, 2023	3.78	ACUITE BB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.75	ACUITE A4+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.47	ACUITE BB-/Stable (Assigned)

Contacts

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About Acuite Ratings & Research:

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