

Press Release
GREETINGS KNIT WEARS
February 04, 2022
Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Loan Ratings	4.25	ACUITE BB- Stable Reaffirmed	-
Bank Loan Ratings	24.25	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	28.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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 Cr bank facilities of Greetings Knit Wears (GKW). The outlook is 'Stable'.

Rationale for Reaffirmation

The rating reaffirmation is driven by a subdued operating performance in FY21 (Prov.) albeit an improvement in 9MFY22, and an elongation in the working capital cycle in FY21 (Prov.). The ratings, further, continue to remain constrained by moderate financial risk profile marked by leveraged capital structure & moderate debt coverage indicators, and exposure to competitive pressures of the industry.

The ratings, however, continue to derive strengths from the extensive experience of the management in the readymade garments industry.

About the Firm

GKW 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 was initially manufacturing 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's name was changed to GKW which is currently into the business of manufacturing and direct exports of hosiery garments.

The firm currently has 4 factory units located in Tiruppur, Tamil Nadu for different manufacturing activities like dyeing, knitting, stitching and cutting. The firm caters to overseas customers in countries like France, Ireland and UK but procures all its raw materials from local suppliers.

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 garments industry

GKW was established as a partnership firm in 1992 by Mr. V. Rajendran along with his brother Mr. V. Gnanasivamoorthy, who possess more than 2 decades of experience in the

readymade garments industry. The firm currently exports around 99 per cent of its products to 3 countries, viz. France, Ireland and UK. The extensive experience of the promoters in the aforementioned industry has helped the firm to established long-term relationships with its customers and suppliers.

Acuité believes that GKW will continue to benefit from the promoters' established presence in the readymade garments industry and its improving business risk profile over the medium-term.

Improving operating performance in 9MFY22 albeit decline in FY2021

The scale of operations of GKW declined with the operating income having declined from Rs.56.44 Cr in FY20 to Rs.47.85 Cr in FY21 (Prov.) owing to the disruptions caused by COVID-19 induced lockdowns across the globe. However, GKW's revenue increased to Rs.66.60 Cr in 9MFY22, thereby surpassing the whole-year revenue for FY21 as well as FY20. This is owing to the improvement in the market sentiments post-COVID-19 pandemic, coupled with addition of two new customers from France and UK. Despite the volatility in revenue, GKW's operating profitability has remained stable with operating margins around 7 per cent in FY21 (Prov.) and FY20. However, given the high interest costs, the net profit margin stood low at 0.76 per cent in FY21 (Prov.) as against 1.02 per cent in FY20. Given this, coupled with the decline in the scale of operations, the net profit declined from Rs.0.58 Cr in FY20 to Rs.0.36 Cr in FY21 (Prov.).

Weaknesses

Moderate financial risk profile

The capital structure of GKW stood highly leveraged with an overall gearing of 3.91 times as on March 31, 2021 (Prov.) as against 2.81 times as on March 31, 2020, whereas the same deteriorated in FY21 (Prov.) over FY20 owing to new term loans being availed to fund additional working capital requirements during the year. However, given the moderate operating profitability, the debt coverage indicators remained moderate with interest coverage and DSCR of 1.38 times each in FY21 (Prov.) as against 1.38 times and 1.05 times respectively in FY20.

Acuité expects GKW's ability improve its capital structure will remain a key rating sensitivity over the medium term.

Highly working capital intensive nature of operations

The operations of GKW are working capital intensive in nature with a majority of funds blocked in inventory and a moderate portion in debtors. The inventory holding stood elongated at 176 days in FY21 (Prov.) as against 171 days in FY20, whereas the collection period stood moderate at 45 days in FY21 (Prov.) as against 54 days in FY20. On the other hand, the creditors' period also stood moderate at 89 days in FY21 (Prov.) as against 169 days in FY20. Given all of the above, the working capital cycle and gross current assets days stood elongated at 132 days and 316 days respectively in FY21 (Prov.) as against 56 days and 268 days respectively in FY20. The elongation in the same was owing to elongation in the inventory holding and shortening of the creditors' period owing to faster payables turnaround undertaken by the firm. This has led to increased reliance on working capital bank facilities, reflected in the average fund-based working capital utilization which stood at almost full levels in the last 6 months ended December 2021. Moreover, the firm also availed ad-hoc overdraft from August 2021 to October 2021 and December 2021 to fund the increase in the scale of operations in 9MFY22.

Rating Sensitivities

- Improvement in the revenues while maintaining the profit margins.
- Improvement in the working capital management leading to improvement in the overall liquidity position.
- Improvement in the capital structure by reducing reliance on external debt.

Material covenants

None

Liquidity Position: Stretched

The liquidity profile of GKW is stretched marked by low cushion in net cash accruals vis-à-vis

debt repayment obligations, highly working capital intensive nature of operations, and highly utilized working capital limits. The operations of the firm are highly working capital intensive in nature with gross current assets days and working capital cycle of 316 days and 132 days respectively in FY21 (Prov.) as against 268 days and 56 days respectively in FY20. Given this, the average fund-based working capital utilization in the last 6 months ended December 2021 stood at almost full levels, coupled with ad-hoc availed over August 2021 to October 2021 and December 2021. Moreover, the firm generated low net cash accruals worth Rs.1.26 Cr and Rs.1.07 Cr in FY20 and FY21 (Prov.) respectively as against debt repayment obligations worth Rs.1.21 Cr and Rs.0.22 Cr in those respective years. The firm is expected to generate net cash accruals in the range of Rs.4-5 Cr over FY22-FY23, as against moderate debt repayment obligations worth Rs.1.90-2.90 Cr over the same period. On the other hand, the current ratio stood moderate at 1.50 times as on March 31, 2021 (Prov.) as against 1.32 times as on March 31, 2020.

Outlook: Stable

Acuité believes that GKW will maintain a stable outlook in the medium-term on the back of the extensive experience of the promoters 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, or un-envisaged enhancement in the working capital debt.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	47.85	56.44
PAT	Rs. Cr.	0.36	0.58
PAT Margin	(%)	0.76	1.02
Total Debt/Tangible Net Worth	Times	3.91	2.81
PBDIT/Interest	Times	1.38	1.38

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

Not Applicable

Any other information

Not Applicable

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

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Nov 2020	Letter of Credit	Short Term	4.75	ACUITE A4+ (Assigned)
	Packing Credit	Short Term	19.50	ACUITE A4+ (Assigned)
	Working Capital Term Loan	Long Term	3.78	ACUITE BB- Stable (Assigned)
	Proposed Bank Facility	Long Term	0.47	ACUITE BB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.75	ACUITE A4+ Reaffirmed
Canara Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	19.50	ACUITE A4+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.78	ACUITE BB- Stable Reaffirmed
Canara Bank	Not Applicable	Working Capital Term Loan	10-09-2020	7.50	31-08-2023	3.47	ACUITE BB- Stable Reaffirmed

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About Acuité Ratings & Research

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