

Press Release

Greetings Knitwears

May 05, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	3.47	ACUITE BB- Stable Reaffirmed	-
Bank Loan Ratings	25.03	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	28.50	-	-

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 extensive experience of the management in the readymade garments industry and improving operating performance for FY2022 and during 11MFY2023. During FY 22- the firm generated revenue of Rs 94.30 crore and during 11MFY2023 (provisional) it generated revenue of Rs.117.76 crore -and is expected to achieve ~ Rs.125.00 crore by March'23. The rating, however continue to remain constrained by below average financial risk profile stretched liquidity and working capital intensive nature of operations.

About the Company

GKW commenced operations in 1983 as a partnership firm in the name of Greetings Hosiery Mills (GHM) by Mr. V Rajendran and 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 United Kingdom, Sweden, Ireland, France etc and procures all its raw materials from the spinning mills in and around Tiruppur.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of GKW 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 90 percent of its products to four countries, viz. United Kingdom, Sweden, Ireland, France. The extensive experience of the promoters in the forementioned 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, expected to continue driven by international demand.

The scale of operations of GKW improved with the operating income increasing from Rs.47.85 crore in FY2021 to Rs.94.30 crore in FY2022 majorly due to the increase in the demand and favourable textile industry. GKW has reported Rs.117.76 Cr in 11MFY2023 (provisional).

Weaknesses

Below average financial risk profile

The capital structure of GKW stood highly leveraged with gearing of 3.20 times as on March 31, 2022 against 3.91 times as on March 31, 2021. The high gearing is primarily on account of dependence on bank borrowings to fund the working capital and long term borrowings. Tangible net worth of the firm is low and stood at Rs.11.95 crore as on March 31, 2022 against Rs.8.59 crore as on March 31, 2021. Of the total debt of Rs.38.28 crore as on March 31, 2022, long-term debt stood at Rs.12.29 crore, short-term debt stood at Rs.23.02 crore, unsecured loan from directors of Rs.0.10 crore and CPLTD stood at Rs.2.87 crore. Total Outside Liabilities by Total Net Worth (TOL/TNW) stood at 4.61 times and 4.57 times as on March 31, 2022 and March 31, 2021 respectively. The debt coverage indicators remained moderate with interest coverage and DSCR of 1.78 times and 1.00 times respectively in FY22. Acuité expects GKW's financial risk profile to remain below average in the near to medium term on account of high dependence on external borrowings and low profitability.

Working capital intensive nature of operations

The operations of GKW are working capital intensive in nature with a majority of funds getting blocked in inventory, current assets and in debtors. The inventory holding days stood at 136 days in FY2022 against 176 days in FY2021. The firm's inventory holding policy depends on next season's expectations / visibility for the next 6 months' / order book position. The debtors' days stood at 46 days in FY2022 against 45 days in FY2021. Given all of the above, Gross Current Asset days (GCA) stood at 235 days in FY2022 against 316 days in FY2021. The fund based limits remains moderately utilized at 80.95 percent for last 12 months ended January, 2023.

Susceptibility of profit margins to the volatility in the foreign exchange:

GKW continues to earn significant portion of revenue from exports, hence, its margins remain exposed to volatility in foreign exchange rate. However, the risk is partially mitigating due to hedging policies adopted by the firm through booking forward contract at the time of the confirmation of the orders thereby mitigating the risk to a greater extent. Nevertheless, the foreign exchange fluctuation risk continues to persist due to timing differences.

Rating Sensitivities

- Improvement in the revenue and 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 as reflected by low net cash accruals to its maturing debt obligations, highly working capital intensive nature of operations and moderate utilization of fund based working capital limits. GKW generated cash accruals of Rs.2.43 crore in FY2022, while its maturing debt obligations stood of Rs.2.41 crore during the same period. The firm is expected to generate net cash accruals in the range of Rs.2.14 -4.38 crore during 2023-25, while its repayment obligations are estimated to be around Rs.2.45- 2.81 crore over the same period. However, moderate fund based limits utilization provides marginal cushion to liquidity. Fund based utilisation stood at 80.95 percent for last 12 months ended January, 2023.

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 margins 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 further elongation in the working capital cycle thereby leading to higher working capital requirement.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	94.30	47.85
PAT	Rs. Cr.	1.76	0.36
PAT Margin	(%)	1.87	0.76
Total Debt/Tangible Net Worth	Times	3.20	3.92
PBDIT/Interest	Times	1.78	1.38

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

Brickworks vide its press release dated 17.01.2022, had reaffirmed the company to BWR BB-/Stable/ A4; INC.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Feb 2022	Proposed Bank Facility	Long Term	0.78	ACUITE BB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	3.47	ACUITE BB- Stable (Reaffirmed)
	Letter of Credit	Short Term	4.75	ACUITE A4+ (Reaffirmed)
	Packing Credit	Short Term	19.50	ACUITE A4+ (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.75	ACUITE A4+ Reaffirmed
Canara Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	20.28	ACUITE A4+ Reaffirmed
Canara Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	3.47	ACUITE BB- Stable Reaffirmed

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About Acuité Ratings & Research

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