



Press Release
Greetings Knitwears
August 02, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.35	ACUITE BB- Stable Reaffirmed	-
Bank Loan Ratings	26.15	-	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 Rating

The rating reaffirmation reflects extensive experience of the management in the readymade garments industry. Although the revenues of the firm have slightly decreased driven due to lower price realization.

Furthermore, the EBITDA margin stood at 6.07 percent in FY24 (Prov.) as compared to 5.05 percent in FY23 and 5.76 percent in FY22.

The average financial risk profile is marked by improving net worth, increase in gearing and decline in debt protection metrics. The tangible net worth stood at Rs.17.03 Cr. in FY24 (Prov.) as against Rs.14.94 Cr. in FY23 and Rs.11.95 Cr. in FY22 due to accretion of reserves.

The operations of the firm are intensive marked by GCA (Gross Current Asset) days at 201 days in FY24 (Prov.) as against 130 days in FY23 and 235 days in FY22.

The firm has stretched liquidity marked by net cash accruals of Rs.3.00 Cr. in FY2024 as against Rs.0.42 Cr. long term debt obligations over the same period. The firm has financial flexibility to bring in funds in the form of unsecured loans for repayment of long-term debt obligations. Moreover, the fund-based limit was utilized at 99 per cent ended June 2024. Acuite believes that the firm's liquidity will improve over the medium term.

About the Company

Incorporated in the year 1983, as a partnership firm in the name of Greetings Hosiery Mills (GHM) by Mr. V Rajendran along with his brother Mr. V. Gnana Sivamoorthy. It was initially manufacturing vests and briefs for the local markets. In the year 1987, the firm commenced manufacture of hosiery garments on job work basis to other exporters. In the year 1992, the firm's name was changed to Greetings Knit Wears, which commenced direct export of hosiery garments.

The infrastructure of the GKT has four factories involves in manufacturing activities like knitting, dyeing, garments, printing.

Currently, the production capacity of GKT is 60 lakhs pieces, with majorly women's, men's and children's wear. The raw materials are procured from the spinning mills in and around tirupur.

Unsupported Rating

Not Applicable

Analytical Approach

Acuité 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. Gnana Sivamoorthy, 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. GKT exports almost 98 percent of its production to European countries like United Kingdom, Sweden, Ireland, France etc. the major customers are CARREFOUR GROUP, PRIMARK GROUP, JOHN LEWIS PLC, SERTRADING (BR) LTDA. They constitute for 80 percent of the total turnover of the firm. The firm maintains more than 10 years of relationship with the clients

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.

Scale of Operations

GKW has reported an operating income of Rs.114.06 Cr. in FY24 (Prov.) as against Rs.127.07 Cr. in FY23 and Rs.94.30 Cr. in FY22. The top line has experienced a slight decrease driven by the low price realisation, price of raw material (Yarn cost), labour cost and cost of production have increased, The EBITDA margin stood at 6.07 percent in FY24 (Prov.) as compared to 5.05 percent in FY23 and 5.76 percent in FY22. The decrease in margin as major cost is getting increased like the price of yarn and the production cost and same the management is not able to pass the same on its customers. The PAT margin stood at 1.83 percent in FY24 (Prov.) as against 2.62 percent in FY23 and 1.87 percent in FY22. The PAT margin has experienced a decline in the operating income resulting in a fall in margins. The ROCE levels stood at 12.42% in FY2024 (Prov.) as against 12.91 % in FY2023 and 10.64 % in FY2022.

Acuite believes the scale of operation will improve slightly over the medium term backed by moderate order execution of the existing order book and profitability would remain at similar levels

Weaknesses

Working capital intensive operations

The operations of the firm are intensive marked by GCA (Gross Current Asset) days at 201 days in FY24 (Prov.) as against 130 days in FY23 and 235 days in FY22. The inventory days stood at 74 days in FY24 (Prov.) as compared to 54 days in FY23 and 136 days in FY22. The debtor days stood at 41 days in FY24 (Prov.) as against 32 days in FY23 and 46 days in FY22. The credit terms with customers are minimum of 15 days and maximum of 30 days. The creditor days stood at 97 days in FY24 (Prov.) as against 58 days in FY23 and 148 days in FY22. Acuité believes that the working capital cycle will continue to remain in the similar levels over the medium term.

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.

Liquidity Position

Stretched

The firm has stretched liquidity marked by net cash accruals of Rs.3.00 Cr. in FY2024 as against Rs.0.42 Cr. long term debt obligations over the same period. The working capital cycle of the firm is intensive marked by GCA (Gross Current Asset) of 210 days in FY24 (Prov.) as against 130 days in FY23 and 235 days in FY22. The cash and bank balance stood at Rs. 1.25 Cr. in FY2024 (Prov.) as compared to Rs. 1.57 Cr. in FY2023 and Rs.0.12 Cr. in FY2022. The current ratio stood comfortable at 3.94 times in FY24(Prov.) as compared to 1.60 times in FY23 and 1.51 times in FY22. The firm has financial flexibility to bring in funds in the form of unsecured loans for repayment of long-term debt obligations. Moreover, the fund-based limit was utilized at 99 per cent ended June 2024. Acuite believes that the firm's liquidity will improve over the medium term.

Outlook: Stable

Acuite 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 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	114.06	127.07
PAT	Rs. Cr.	2.09	3.33
PAT Margin	(%)	1.83	2.62
Total Debt/Tangible Net Worth	Times	2.28	1.74
PBDIT/Interest	Times	1.76	2.59

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

Not Applicable

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, Acuite 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
05 May 2023	PC/PCFC	Short Term	20.28	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	4.75	ACUITE A4+ (Reaffirmed)
	Working Capital Term Loan	Long Term	3.47	ACUITE BB- Stable (Reaffirmed)
04 Feb 2022	PC/PCFC	Short Term	19.50	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	4.75	ACUITE A4+ (Reaffirmed)
	Working Capital Term Loan	Long Term	3.47	ACUITE BB- Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	0.78	ACUITE BB- Stable (Reaffirmed)

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 avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	26.15	ACUITE A4+ Reaffirmed
Canara Bank	Not avl. / Not appl.	Working Capital Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	01 Sep 2024	Simple	0.63	ACUITE BB- Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Working Capital Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	01 Dec 2026	Simple	1.72	ACUITE BB- Stable Reaffirmed

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About Acuité Ratings & Research

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