

## K G Denim Limited

August 18, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	112.24 (enhanced from 93.25)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	154.52 (enhanced from 133.20)	CARE A3 (A Three)	Reaffirmed
<b>Total</b>	<b>266.76</b> <b>(Rupees Two Hundred Sixty Six crore and Seventy Six lakh only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of K G Denim Limited (KGDL) continue to factor in KGDL's established presence in denim business for about two decades, the group's integrated presence in the textile value chain and established clientele in the domestic as well as export markets.

The ratings, however, continue to be constrained by working capital intensive nature of operations of the company, leveraged capital structure albeit improved as on March 2017, exposure to fluctuation in raw material prices and cyclical nature of the denim industry.

Going forward, the ability of KGDL to scale up operations in its non-denim business, improve profit margins, improve its liquidity position and capital structure would be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Early entrant and one of the leading manufacturers in the denim industry:** KGDL has been in the denim business for around two decades. The promoters have been in textile business for more than seven decades. KGDL is one of the leading denim players in the country and the largest in Southern India. As on March 2017, KGDL has an installed capacity of 207 looms and can process up to 25 million meters of denim fabric per annum.

**Group's integrated presence in the value chain:** KGDL has direct presence in weaving, dyeing and garmenting segments of the textile value chain. Its presence is extended to branded retailing and apparel business through its wholly owned subsidiary, TAL. Sri Kannapiran Mills Limited (SKML), a group company, is engaged in spinning business making the group a fully integrated player with presence across various segments of the textile value chain. KGDL's subsidiary, Trigger Apparels Limited (TAL), sells denim garments in domestic market through its own retail outlets under 'Trigger' brand and distributors spread across the country.

**Established network and clientele base:** KGDL has established relationships with clients across several global markets attributable to the group's long-standing presence in textile business. Besides denim fabrics, KGDL cater to the non-denim market (~40% of the total sales) under which it exports 100% of Home linen and ~20% of dyed fabrics produced to various destinations. The top ten customers contributed to 23% of the total sales in FY17 as against 24% in FY16 (refers to the period April 1 to March 31). Exports accounted for about 37% (FY: 46%) of the total sales during FY17.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Stable profit levels albeit decline in the operating income during FY17:** The operating income declined by 5.4% from Rs.655.6 crore in FY16 to Rs.620.1 crore in FY17 on account of reduced sales in Q4FY17 following the demonetisation during the month of November 2016 and also due to reduced sales of Home textiles. The PBILDT margin declined marginally from 13.11% in FY16 to 12.46% in FY17 on account of increased repairs and maintenance costs. Nevertheless, with reduced interest and depreciation costs, the PAT margin improved from 3.20% in FY16 to 3.90% in FY17.

#### **Key Rating Weaknesses**

**Leveraged capital structure with proposed debt-funded capex:** The overall gearing stood leveraged at 1.44x as on March 31, 2017, as against 2.22x as on March 31, 2016. The debt coverage indicators remained stable with Total debt/ GCA of 3.94x (PY: 3.39x) as on March 31, 2017. For FY18, the company plans for a capex of Rs.50 crore funded by term debt of Rs.37.5 crore and rest by internal accruals. The project mainly involves replacement of older looms of around 42 nos, upgradation of existing machineries such as warping machines, mercerizer machines, coating machines, installation of humidification plant etc.,

The company had given guarantee to the banks in the favour of TAL amounting to Rs.6.51 crore (PY: Rs.6.51 crore) for its working capital facilities as on March 31, 2017. The company also has equity investments of Rs.7.78 crore (PY: Rs.7.78 crore) in the subsidiary and associate companies. Furthermore KGD L has receivables of Rs.37.9 crore as on March 31, 2017 (PY: 32.62 crore) from TAL. Adjusting the above exposures to the group companies, the adjusted overall gearing stood high at 2.73x as on March 31, 2016 (PY: 3.34x)

**Working capital intensive nature of operations:** The current ratio continues to be around unity, primarily due to company's higher reliance on debt to fund the working capital requirements. The receivables more than 6 months increased from Rs.0.74 crore as on March 31, 2017, to Rs.12.26 crore as on March 31, 2017, on account of stretched collections from the subsidiary company. The company has working capital limits of Rs.120.4 crore and the average utilisation stood at 76.37% during the 12 months ended May 2017.

**Exposure to volatility in the prices of key raw material:** The major raw material requirement for the integrated denim manufacturing unit is cotton and yarn. Being a commodity in nature, prices of the raw material are inherently volatile in nature. The raw cotton and yarn cost constituted ~80% of the total raw material consumption during FY17 and the rest is contributed by dyes and chemicals. The yarn prices are in declining trend over the last two years ended FY16 and have started to rise during Cotton Year 2016-17.

#### **Analytical approach:**

Standalone

#### **Applicable Criteria**

[CARE's methodology for manufacturing companies](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Cotton Yarn Industry](#)

## About the Company

KGDL was incorporated in the year 1992 by Mr K Govindaswamy Naidu, founder of KG group to manufacture denim fabric. The company entered into non-denim business (processing cotton-based fabric and home textiles) during FY07. As on March 2017, KGDL has an installed capacity of 207 looms and can process up to 25 million meters of denim fabric per annum.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	655.6	620.1
PBILDT	86.1	77.3
PAT	21.1	24.2
Overall gearing (times)	2.22	1.44
Interest coverage (times)	2.65	2.97

A: Audited

## Status of non-cooperation with previous CRA:

Not Applicable

## Any other information:

Not Applicable

## Rating History for last three years: Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	May 2024	84.32	CARE BBB-; Stable
Fund-based - ST-Packing Credit in Foreign Currency	-	-	-	44.74	CARE A3
Fund-based - LT-Cash Credit	-	-	-	27.92	CARE BBB-; Stable
Fund-based - ST-FBN / FBP	-	-	-	47.71	CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	61.07	CARE A3
Non-fund-based - ST-Bank Guarantees	-	-	-	1.00	CARE A3

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	84.32	CARE BBB-; Stable	-	1)CARE BBB- (22-Aug-16)	1)CARE BB (06-Oct-15)	1)CARE BB- (11-Jul-14)
2.	Fund-based - ST-Packing Credit in Foreign Currency	ST	44.74	CARE A3	-	1)CARE A3 (22-Aug-16)	1)CARE A4 (06-Oct-15)	1)CARE A4 (11-Jul-14)
3.	Fund-based - LT-Cash Credit	LT	27.92	CARE BBB-; Stable	-	1)CARE BBB- (22-Aug-16)	1)CARE BB (06-Oct-15)	1)CARE BB- (11-Jul-14)
4.	Fund-based - LT/ ST-Cash Credit	LT/ST	-	-	-	-	-	1)Withdrawn (11-Jul-14)
5.	Fund-based - ST-FBN / FBP	ST	47.71	CARE A3	-	1)CARE A3 (22-Aug-16)	1)CARE A4 (06-Oct-15)	1)CARE A4 (11-Jul-14)
6.	Non-fund-based - ST-Letter of credit	ST	61.07	CARE A3	-	1)CARE A3 (22-Aug-16)	1)CARE A4 (06-Oct-15)	1)CARE A4 (11-Jul-14)
7.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A3	-	1)CARE A3 (22-Aug-16)	1)CARE A4 (06-Oct-15)	1)CARE A4 (11-Jul-14)

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