

K G Denim Limited

April 06, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	145.44 (Enhanced from 123.00)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	129.81 (Enhanced from 125.35)	CARE A4+ (A Four Plus)	Reaffirmed
Total Bank Facilities	275.25 (Rs. Two hundred seventy-five crore and twenty-five lakhs only)		

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 be constrained by moderate capital structure, moderate financial performance with net losses, weak debt coverage indicators, stretched liquidity and exposure to fluctuation in raw material prices and cyclical nature of the denim industry with over capacity prevailing in denim industry. The ratings, however, derive strength from KGDL's established presence in denim business for over two decades, the group's integrated presence in the textile value chain, and established clientele in the domestic as well as export markets.

Key Rating Sensitivities:

Positive Factors:

- Scale up operations to above Rs.650 crore with PBILDT margin above 10% on sustained basis.
- Generate adequate accruals and improve Total debt/ GCA to below 6x

Negative Factors:

- Any large debt funded capex or further losses leading to deterioration in capital structure with overall gearing exceeding 3x.

Detailed description of key rating drivers

Key Rating Weaknesses

Decline in operating income with net losses in FY21, however improved in 9mFY22

The operating income in FY21 (refers to the period April 1 to March 31) has declined by 16% from Rs. 494.4 crore in FY20 to Rs. 415.3 crore in FY21 due to sluggish demand in domestic and export market due to overcapacity prevailing in the denim industry and also due to the covid lockdown restrictions where there were no operations for 2 months in FY21. The PBILDT margin stood moderate at 6.42% in FY21 albeit improved marginally from 4.43% in FY20. The company made net loss of Rs.5.9 crore in FY21 as against Rs.16.5 crore in FY20. However during 9mFY22 (refers to the period April 1 to December 31), the performance improved gradually and the net losses reduced to Rs.1.5 crore, while the gross cash accruals increased to Rs.11.9 crore from Rs.5 crore in FY21.

Moderate capital structure and debt coverage indicators

KGDL had availed covid emergency loans of Rs.45.14 crore during FY21 and Rs.20.3 crore in 9mFY22 to meet working capital and repayment obligations. On account of the above the overall gearing has declined to 2.51x as on March 31, 2021 from 2.10x as on March 31, 2020. KGDL had also given guarantee to the banks in the favour of its subsidiary and associate companies amounting to Rs.5.00 crore (PY: Rs.5.51 crore) for its working capital facilities. The company also has equity investments of Rs.7.78 crore (PY: Rs.7.78 crore) as on March 31, 2020. During FY20, KGDL made provision of Rs.4.5 crore for its entire investment made in one of its loss-making subsidiary. Adjusting the exposure to the group companies and subsidiaries including receivables of Rs.38.4 crore (PY: Rs.34.4 crore), the adjusted overall gearing stood at 2.93x as on March 31, 2021 (PY: 3.07x). The debt coverage metrics also stood weak with total debt/ GCA of 46.5 as on March 31, 2021.

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. The profitability depends largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, etc. During the past years, the market has seen volatility in cotton yarn production due to the unstable cotton prices and inconsistent cotton yarn export policy.

Key Rating Strengths

One of the leading denim manufacturers with a long track record & experienced promoter

Mr. K.G Baalakrishnan, B.Com, B.L, the Executive Chairman has been associated with the textile industry for more than 46 years and instrumental in building KG group in Coimbatore, Tamil Nadu. He is the Managing Trustee of KG Medical Trust- KG Hospitals and KG Educational Trust. His sons Mr.B.Sriramulu & Mr. B.Srihari, the Managing Directors have two decades of experience in textile sector. KGDL has been in the denim business for over two decades.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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, Trigger Apparel Limited (TAL). Sri Kannapiran Mills Limited (SKML), a group company, is engaged in spinning business. KGDL procures nearly 30% of its yarn requirements from SKML. KGDL's subsidiary, TAL, sells denim garments in domestic market through its own retail outlets under 'Trigger' brand and distributors spread across the country.

Liquidity- Stretched

Liquidity is stretched marked by lower accruals against repayment obligations and moderate cash balance of Rs.3.4 crore as on March 31, 2021. The current ratio continues to be around unity, primarily due to company's higher reliance on debt to fund the working capital requirements and stretched creditor period. The inventory holding also increased to 122 days in FY21 from 101 days in FY20 due to slow movement of finished goods. The average working capital utilization stood moderate at 82.12% for the past 12 months ended January 2022. KGDL availed covid emergency loans of Rs.45 crore during FY21 and Rs.20 crore in 9mFY22 to manage the working capital and repayment obligations.

Industry outlook

The Indian denim fabric industry is cyclical in nature and has witnessed major slowdown at least twice over the past two decades leading to piling up of excess inventory on the back of significant capacity addition by denim fabric manufacturers and consequent pricing pressure on sales realization. Indian denim fabric industry is already witnessing an over-supply situation which would be further impacted by slowdown in demand due to Covid-19 pandemic.

Analytical approach:

Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cotton Textile](#)

[Manufacturing Companies](#)

About the Company

KG Denim Ltd (KGDL) was incorporated in the year 1992 by Shri. K. Govindaswamy Naidu, founder of KG group to manufacture denim fabric. The company is now managed by his son Shri. K G Baalakrishnan, Chairman and grandsons Shri B.Sriramulu, Managing Director and Shri B. Srihari, Managing Directors. The company entered into non-denim business (processing cotton-based fabric and home textiles) during FY07. As on March 31, 2021, KGDL had an installed capacity of 238 looms and can process up to 30 million meters of denim fabric per annum. The company also has a cogeneration facility with a capacity of 10 MW of power generation.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9mFY22(UA)
Total operating income	494.4	415.3	425.3
PBILDT	21.9	26.7	30.1
PAT	-16.5	-5.9	-1.5
Overall gearing (times)	2.10	2.51	NA
Interest coverage (times)	0.97	1.22	1.66

A: Audited; UA-UnAudited; NA: Not Available

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

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

Covenants on instruments rated: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Please refer Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	December 2028	105.37	CARE BB+; Stable
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	63.04	CARE A4+
Fund-based - LT-Cash Credit		-	-	-	40.07	CARE BB+; Stable
Fund-based - ST-FBN / FBP		-	-	-	46.19	CARE A4+
Non-fund-based - ST-Letter of credit		-	-	-	20.08	CARE A4+
Non-fund-based - ST-Bank Guarantee		-	-	-	0.50	CARE A4+

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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	105.37	CARE BB+; Stable	-	1)CARE BB+; Stable (05-Apr-21)	1)CARE BB+; Stable (07-Aug-20)	1)CARE BBB-; Negative (06-Sep-19)
2	Fund-based - ST-Packing Credit in Foreign Currency	ST	63.04	CARE A4+	-	1)CARE A4+ (05-Apr-21)	1)CARE A4+ (07-Aug-20)	1)CARE A3 (06-Sep-19)
3	Fund-based - LT-Cash Credit	LT	40.07	CARE BB+; Stable	-	1)CARE BB+; Stable (05-Apr-21)	1)CARE BB+; Stable (07-Aug-20)	1)CARE BBB-; Negative (06-Sep-19)
4	Fund-based - ST-FBN / FBP	ST	46.19	CARE A4+	-	1)CARE A4+ (05-Apr-21)	1)CARE A4+ (07-Aug-20)	1)CARE A3 (06-Sep-19)
5	Non-fund-based - ST-Letter of credit	ST	20.08	CARE A4+	-	1)CARE A4+ (05-Apr-21)	1)CARE A4+ (07-Aug-20)	1)CARE A3 (06-Sep-19)
6	Non-fund-based - ST-Bank Guarantee	ST	0.50	CARE A4+	-	1)CARE A4+ (05-Apr-21)	1)CARE A4+ (07-Aug-20)	1)CARE A3 (06-Sep-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of rated facilities: Not Applicable**Annexure-4: Complexity level of instruments rated for the company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-FBN / FBP	Simple
4	Fund-based - ST-Packing Credit in Foreign Currency	Simple
5	Non-fund-based - ST-Bank Guarantee	Simple
6	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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