

## K G Denim Limited

May 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	113.99	CARE D; ISSUER NOT COOPERATING*	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE B+; Stable;
Short Term Bank Facilities	123.81	CARE D; ISSUER NOT COOPERATING*	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE A4;

Details of instruments/facilities in Annexure-1.

\*Issuer did not cooperate; based on best available information.

### Rationale and key rating drivers

CARE Ratings Ltd. had, vide its press release dated March 26, 2024, placed the ratings of K G Denim Limited (KGDL) under the 'issuer non-cooperating' category as KGDL had failed to provide information for monitoring of the rating. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating.

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).**

The ratings have been revised on account of delays in servicing debt obligations due to stressed liquidity position. The ratings also continue to be constrained by moderate capital structure, 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.

**Analytical approach:** Standalone

### Detailed description of the key rating drivers:

At the time of last rating on April 06, 2023 the following were the rating strengths and weaknesses, updated with information from the stock exchange filings and feedback from bankers.

### Key weaknesses

#### Decline in profitability with net losses in FY23 and 9mFY24, leading to delays in debt servicing

The operating income moderated from Rs. 586.46 crore in FY22 to Rs.512.02 in FY23 owing to slowdown in denim demand. The company incurred operating loss of Rs.2.37 crore in FY23 as against operating profit of Rs.26.32 crore in FY22 due to higher raw material costs. Further with higher interest expenses, the company reported net loss of Rs.27.41 crore in FY23 as against net loss of Rs.7.06 crore in FY22. During 9mFY24, the company further reported cash loss of Rs.14.42 crore on total income of Rs.194.90 crore. KGDL informed BSE vide its announcement dated May 04, 2024, that it had received an order dated March 25, 2024, from Government of Tamil Nadu not to draw water from the Bhavani River, which is the only water source for the company. KGDL has ceased its major operations due to the ongoing water crisis in the district. This had further stressed the liquidity and led to delays in its repayment obligations of bank loans.

#### Moderate capital structure and weak debt coverage indicators

The capital structure has deteriorated with overall gearing at 3.44x as on March 31, 2023 as against 2.87x as on March 31, 2022 due to decline in networth owing to the net losses reported. 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.5.00 crore) for its working capital facilities. Adjusting the exposure to the group companies and subsidiaries including receivables of Rs.37.69 crore (PY: Rs.28.47 crore), the adjusted overall gearing stood at 4.08x as on March 31, 2023 (PY: 3.20x). The debt coverage metrics also stood weak with cash losses in FY23.

#### 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,

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

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. The company, however, mitigates the price volatility of the raw material by passing on about 40% of the purchase cost to its customer.

### Key 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 47 years and instrumental in building KG group in Coimbatore, TamilNadu. 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.

#### 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 40% 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.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

### Applicable criteria

[Definition of Default](#)

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

[Policy in respect of non-cooperation by issuers](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Cotton Textile](#)

[Short Term Instruments](#)

### About the company and industry

#### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

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, 2022, KGDL had an installed capacity of 232 looms and can process up to 27 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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9mFY24 (UA)
Total operating income	586.46	512.02	194.90
PBILDT	26.32	(2.37)	7.67
PAT	(7.06)	(27.41)	(14.42)
Overall gearing (times)	2.87	3.44	NA
Interest coverage (times)	1.08	(0.11)	0.49

A: Audited; UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results 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 of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	40.07	CARE D; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	December 2028	73.92	CARE D; ISSUER NOT COOPERATING*
Fund-based - ST-FBN / FBP		-	-	-	44.69	CARE D; ISSUER NOT COOPERATING*
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	61.54	CARE D; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantee		-	-	-	0.50	CARE D; ISSUER NOT COOPERATING*
Non-fund-based - ST-Letter of credit		-	-	-	17.08	CARE D; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; based on best available information.

#### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	73.92	CARE D; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (26-Mar-24) 2)CARE BB; Negative (06-Apr-23)	1)CARE BB+; Stable (06-Apr-22)	1)CARE BB+; Stable (05-Apr-21)
2	Fund-based - ST-Packing Credit in Foreign Currency	ST	61.54	CARE D; ISSUER NOT COOPERATING*	-	1)CARE A4; ISSUER NOT COOPERATING* (26-Mar-24)	1)CARE A4+ (06-Apr-22)	1)CARE A4+ (05-Apr-21)

						2)CARE A4 (06-Apr-23)		
3	Fund-based - LT-Cash Credit	LT	40.07	CARE D; ISSUER NOT COOPERATING *	-	1)CARE B+; Stable; ISSUER NOT COOPERATING * (26-Mar-24)  2)CARE BB; Negative (06-Apr-23)	1)CARE BB+; Stable (06-Apr- 22)	1)CARE BB+; Stable (05-Apr- 21)
4	Fund-based - ST-FBN / FBP	ST	44.69	CARE D; ISSUER NOT COOPERATING *	-	1)CARE A4; ISSUER NOT COOPERATING * (26-Mar-24)  2)CARE A4 (06-Apr-23)	1)CARE A4+ (06-Apr- 22)	1)CARE A4+ (05-Apr- 21)
5	Non-fund-based - ST-Letter of credit	ST	17.08	CARE D; ISSUER NOT COOPERATING *	-	1)CARE A4; ISSUER NOT COOPERATING * (26-Mar-24)  2)CARE A4 (06-Apr-23)	1)CARE A4+ (06-Apr- 22)	1)CARE A4+ (05-Apr- 21)
6	Non-fund-based - ST-Bank Guarantee	ST	0.50	CARE D; ISSUER NOT COOPERATING *	-	1)CARE A4; ISSUER NOT COOPERATING * (26-Mar-24)  2)CARE A4 (06-Apr-23)	1)CARE A4+ (06-Apr- 22)	1)CARE A4+ (05-Apr- 21)

\*Issuer did not cooperate; based on best available information.

LT: Long term; ST: Short term

### Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

### Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings 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](mailto:care@careedge.in) for any clarifications.

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### About us:

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### Disclaimer:

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