Zonac Knitting Machines Private Limited

March 22, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	18.20 (Reduced from 18.63)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	4.43 (Enhanced from 4.00)	CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable/ A Two)	Reaffirmed
Total Bank Facilities	**22.63 (Rs. Twenty-Two Crore and Sixty-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and key rating drivers

The ratings to the bank facilities of Zonac Knitting Machines Private Limited (ZKMPL) continues to draw comfort from the experienced management and long track record of operations, strong brand presence and a well-established marketing and distributor network. The ratings further draw comfort from the healthy profitability margins, comfortable capital structure, coverage indicators and moderate operating cycle. The ratings however, continue to remain constrained by the modest scale of operations, exposure of profitability to raw material price volatility and the presence of the company in highly competitive industry.

Key Rating Sensitivity

Positive Factors

- Increase in scale of operations as marked by total operating income of above Rs. 200.00 crore on sustained basis.
- Improvement in the operating cycle of the firm below 50 days on sustained basis.

Negative Factors

- Decline in profitability margins as marked by PBILDT and PAT margin below 10.00% and 4.00% respectively.
- Deterioration in the capital structure as marked by overall gearing ratio above 1.00 times on sustained basis.

Detailed description of the key rating drivers

Key Rating strength

Experienced management and long track record of operations

ZKM had been in the hosiery products manufacturing industry since 1988 which enables establishing relationship with both customers and suppliers. The company is currently being managed by Mr. Raj Kumar Jain and Mr. Sanjay Jain having experience of more than two decades through their association with ZKM. They are further supported by Mr. Ajay Kumar Jain and Ms. Sushma Jain. In addition, the operations of the company are smoothly carried out by a team of managers and professionals who have requisite experience in their respective fields.

Strong brand presence and well-established marketing and distributor network

ZKM has successfully established “Bonjour” as a brand name in sock category of hosiery products in the domestic market. Strong brand image ensures customer loyalty and aid in the differentiation of products with the competitors. Additionally, the company markets and sells its entire range of products through a well-established network. The marketing team consists of nearly 115 sales and marketing executives. Additionally, the products are sold through 137 distributors covering around 8,000 retail chains. The company also sells its products through big retail players like Reliance, Max, Bata and Canteen stores department (CSD), Lifestyle group, etc. and the company has long standing relationship with these players ranging between 5-15 years. This provides wide spread reach and additional credibility to the products of the company.

Healthy Profitability margins, comfortable capital structure and coverage indicators

The profitability margins of the company improved as marked by PBILDT margin of 15.58% in FY20 (period refers to April 1 to March 31) as against 14.54% in FY19. The improvement in the PBILDT margin was on account of decline in cost of production due to economies of scale. Furthermore, due to improvement in production process (up-gradation of machinery) in the last few years evident from regular capex led to decline in wastages and increase in product profile (better designs, quality etc.). All this resulted in decline in raw material consumption and better average sales realization. The PAT margin improved in line with the PBILDT margin and stood at 7.97% in FY20 as against 7.26% in FY19. Further, gross cash accruals of the company increased from Rs. 11.53 crore in FY19 to Rs. 13.05 crore in FY20. However, the profitability is expected to decline during FY21 due to lower sales amid lockdown and covid. The company has registered sales of Rs.46cr during the period of 9MFY21. The capital structure of the company improved though continues to remain comfortable as

marked by overall gearing of 0.24x as on March 31, 2020 as against 0.39x as on March 31, 2019. The improvement in the overall gearing ratio can be attributed to repayment of term loan coupled with higher net worth owing to accretion of profits to reserves.
On account of healthy profitability margins, the coverage indicators also continue to remain comfortable marked by interest coverage ratio and total debt / GCA of 13.15x and 0.92x respectively for FY20 as against 9.31x and 1.43x for FY19.

Moderate operating cycle

The operating cycle continues to remain moderate at 103 days for FY20. The company manufactures different forms/types of socks and other hosiery garments which results in maintenance of sufficient stock of different forms of raw materials i.e. yarn and fabrics for smooth production process leading to average raw material period of around 36 days. The manufacturing process involves printing, embroidery and dyeing leading to work in progress period of around three weeks. Furthermore, the company has to maintain minimum inventory of its products mainly socks to meet the demand of its customers leading to average finished good period of around 37 days. This together resulted in average inventory period of 77 days. The company offers credit period of around one and a half month to its distributors while receives average credit of around a month from the local manufacturers of yarns. Entailing all lead to moderate operating cycle. The average utilization of working capital limits remained at 46.4% for the period of 12 months period ended December, 2021.

Key Rating Weakness

Modest though growing scale of operations

The scale of operations continues to remain modest as marked by a total operating income (TOI) and gross cash accruals of Rs.120.54 crore and Rs.13.05 crore respectively during FY20 (period refer to April 01 to March 31) as against Rs.115.67 crore and Rs.11.53 crore during FY19. In 9MFY21 (Provisional results: refers to the period from April 01 to December 31), the company has reported total operating income of Rs. 46.45 crore. The modest scale limits the company's financial flexibility in times of stress and deprives it from scale benefits.
Though the risk is partially mitigated by the fact that the scale of operations has been growing continuously on y-o-y basis for the past three financial years (FY18-FY20) on account of increase in the quantity sold to the existing customers along with the new customers.

Exposure to raw material price volatility

The main raw material of the company are different yarns (cotton yarn, poly-viscose yarn, polyester yarn) and fabrics and the same constituted about 50% of the total cost to sales in FY20. The company is exposed to the raw material price volatility risk due to the volatility experienced in the polyester yarn which is obtained from a crude derivative. The prices of the polyester fiber are linked with the prices of crude oil which is volatile in nature. Additionally, the cotton prices are volatile on account of various factors like government policies viz. minimum support price, regularity of monsoon leading to unpredictable yields etc. Hence any volatility in prices of the raw material has a direct impact on the profitability margins of the company.

Competitive nature of industry

The hosiery garments industry in India has high competition among industry players. Relatively smaller players are more vulnerable to intense competition and have limited price flexibility which constraints their profitability as compared to organized players. However, ZKM benefits from the established brand name and high visibility through reputed retail chains.

Liquidity: Strong- Liquidity is marked by strong accruals against repayment obligations of term loan Rs. 1.78 crore in FY21, liquid investments to the tune of Rs. 0.23 crore and earnmarked balances against guarantees amounting to Rs. 1.92 crore as on March 31, 2020. With a gearing of 0.24 times as of March 31, 2020, the issuer has sufficient gearing headroom, to raise additional debt for its capex. Further, the liquidity profile of the company is also supported by moderate cash accruals that have increased from FY19 as against FY20 from Rs. 11.53 crore to Rs. 13.05 crore by 13.18%.
The current ratio and quick ratio stood at 2.61x and 1.65x as on March 31, 2020 as against 2.09x and 1.07x as on March 31, 2019.
Further company has availed moratorium as offered by the banks under RBI guidelines for COVID19.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Rating Methodology for Cotton Textile Manufacturing

About the Company

Greater Noida, Uttar Pradesh based Zonac Knitting Machines Private Limited (ZKM) was incorporated in 1988 and is engaged in the manufacturing of hosiery garments, i.e., socks, stockings, tights, leggings and handkerchiefs amongst others.

ZKM sells the products under its own brands, i.e., 'Bonjour', 'Bongio' and 'Vami'. The company also manufactures for large retail chains for their private labels. Besides ZKM, the group consists of Sogo Fashions Private Limited (SFP) engaged in the manufacturing of garments and yarn, as well as Bonjour Retail, a partnership firm engaged in retail trading of hosiery goods.

(Rs. In crore)

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	115.67	120.54
PBILDT	16.82	18.78
PAT	8.40	9.61
Overall gearing (times)	0.39	0.24
Interest coverage (times)	9.31	13.15

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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	-	-	-	2.70	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	15.50	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	4.43	CARE BBB+; Stable / CARE A2

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	2.70	CARE BBB+; Stable	-	1)CARE BBB+; Stable (24-Mar-20) 2)CARE BBB+; Stable (04-Apr-19)	1)CARE BBB+; Stable (03-Apr-18)	-
2.	Fund-based - LT-Cash Credit	LT	15.50	CARE BBB+; Stable	-	1)CARE BBB+; Stable (24-Mar-20) 2)CARE BBB+; Stable (04-Apr-19)	1)CARE BBB+; Stable (03-Apr-18)	-

3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	4.43	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (24-Mar-20) 2)CARE BBB+; Stable / CARE A2 (04-Apr-19)	1)CARE BBB+; Stable / CARE A2 (03-Apr-18)	-

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

Annexure 4: Complexity level of various instruments rated for this company/firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Achin Nirwani
Contact no.: +91- 11-4533 3233
Email ID: achin.nirwani@careratings.com

Relationship Contact
Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**