

J. M. Hosiery & Co. Limited

February 05, 2018

Rating

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	110 (enhanced from 85) (Rs. One hundred and ten crore only)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed

Details of instrument/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The rating assigned to the bank facilities of J. M. Hosiery & Co. Ltd. (JMHCL) continues to derive strength from the long track record and significant experience of the promoters, Lux group's integrated nature of operations and wide product range with established brand presence in the hosiery industry and established selling & marketing arrangements of the group. The rating also takes into account the satisfactory financial performance of JMHCL during FY17 (refers to the period April 1 to March 31) marked by growth in revenue, stable profitability margins and moderate capital structure.

The rating, however, continues to be constrained by the working capital intensive nature of operations, exposure to volatility in the prices of raw materials and intense competition.

The ability of the company to improve its market share and profitability along with effective management of working capital are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations and significant experience of promoter in the hosiery industry

JMHCL is a part of the Lux group which traces its origins to Mr Girdharilaji Todi who had started the business of manufacturing innerwear in 1957. His sons, Mr Ashok Todi and Mr Pradeep Todi, the current promoters, also have an experience of over three decades in the hosiery business.

Lux group's integrated nature of operations

The major entities of the group are Lux Industries Limited (LIL; CARE A+; Sable/CARE A1+), JMHCL, Ebell Fashions Private Limited (EFPL) and S. D. International (SDI) and they share a common marketing and advertisement network, along with common suppliers. LIL's focus is on the men's innerwear and outerwear including thermal wear with its major brands being *ONN, Lux Cozi, Lux Classic, Lux Venus, Lux Cottswool, Inferno*. While JMHCL is more focused on women's innerwear and outerwear and markets its products under the brand names *GenX, KoolZ, Touch, Karishma* and *Target*, EFPL focuses on women's leggings under the brand name *Lux Lyra*. SDI focuses on kids wear for export markets.

Wide product range of the group coupled with established brand presence in hosiery industry

The Lux group has over the years broadened its product portfolio, which now spans innerwear products for men, women as well as children, across all price ranges; leggings, thermal wear, socks and casual outer wears.

Furthermore, the group has aggressively pursued various marketing and promotional activities to build a strong brand name. Besides branding which has created a demand pull, the group has also expanded its distribution network.

Stable operational performance during FY17 & 9MFY18

The total operating income of the company witnessed a growth of 11.87% from Rs.227.31 crore in FY16 to Rs.254.29 crore in FY17 driven by increase in sales realisation with increased focus on value added products. The PBILDT margin remained relatively stable at 7.82% in FY17 vis-à-vis 7.45% in FY16. PAT margin also remained stable at 3.44% in FY17 as compared to 3.23% in FY16.

JMHCL achieved sales of Rs.201.96 crore and PAT of Rs.8.07 crore during 9MFY18.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Moderate capital structure and debt coverage indicators

The capital structure of the company continued to remain moderate. The company had debt equity ratio of 0.19x as on March 31, 2017 as compared to 0.26x as on March 31, 2016, whereas, the overall gearing ratio stood at 1.36x as on March 31, 2017 as compared to 1.33x as on March 31, 2016.

The debt coverage indicators also remained stable with interest coverage and total debt to GCA of 2.41x and 10.58x respectively in FY17 as compared to 2.37x and 10.92x respectively in FY16.

Key Rating Weaknesses

Working capital intensive nature of operations

The working capital cycle of the company continued to remain high and further increased to 231 days in FY17 from 213 days in FY16 due to increase in collection period to 137 days in FY17 from 125 days in FY16. The increase in collection period was primarily due to impact of demonetisation during H2FY17. The inventory days stood at similar levels at 166 days in FY17 as compared to 171 days in FY16; whereas the creditor period decreased to 72 days in FY17 from 84 days in FY16. The average working capital utilisation stood at about 81% for the last twelve months ending October'2016.

Raw material price fluctuation risk

Raw material (including purchases of traded goods) cost formed about 53% of the total cost of sales during FY17. The major raw materials for JMHCL are yarn/knitted yarn, the prices of which are dependent on the prices of cotton which being commodity in nature have volatile price movements.

Industry characterised by intense competition.

The industry is characterised by significant competition from established players and dominated by the unorganised segment.

Analytical approach: Standalone while factoring linkages within the group.

Applicable Criteria

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

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

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

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology- Factoring linkages in Ratings](#)

About the Company

JMHCL was originally incorporated as Todi Hosiery Private Limited in October'2004 and subsequently its name was changed to Todi Hosiery Limited in April'2012. It acquired its present name in July'2015. JMHCL is part of the Lux group, based out of Kolkata. JMHCL is engaged in manufacturing and marketing of hosiery undergarments. JMHCL is focused on women innerwear and outerwear and markets its products under the brand names of GenX, KoolZ, Touch, Karishma and Target.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	227.31	254.29
PBILD	16.79	19.65
PAT	7.34	8.75
Overall gearing (times)	1.33	1.36
Interest coverage (times)	2.37	2.41

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

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.

Analyst Contact:

Name: Ms Mamta Muklania

Tel: 033-4018 1651

Mobile : 98304 07120

Email: mamta.khemka@careratings.com

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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-Cash Credit	-	-	-	110.00	CARE A-; Stable

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-Cash Credit	LT	110.00	CARE A-; Stable	-	1)CARE A-; Stable (12-Jan-17)	1)CARE A- (11-Jan-16)	1)CARE A- (11-Jul-14)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com