K G Denim Limited (Revised)
August 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	114.22	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**
Short-term Bank Facilities	117.01	**CARE A4+ (A Four Plus)**	**Revised from CARE A3 (A Three)**
Total Facilities	**231.23 (Rs. Two hundred thirty one crore and twenty three lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of K G Denim Limited (KGDL) factors in the decline in the scale of operations and profitability with cash loss incurred by the company during FY20 (refers to the period April 1 to March 31). The ratings are also 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 the 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.

Rating Sensitivities

Positive Factors

- Improve profitability on a consistent basis with PBILDT margins above 10% and generate net profits.
- Improvement in liquidity position with current ratio in the range of 1.3x-1.5x.

Negative factors

- Any large debt-funded capex or further losses leading to deterioration in capital structure with overall gearing exceeding 2.5x.

Detailed description of key rating drivers

Key rating weaknesses

Decline in operating income and profitability with cash losses in FY20: The operating income in FY20 has decreased by 29% from Rs.693.6 crore in FY19 to Rs.495.5 crore in FY20 due to sluggish demand in domestic and export market due to overcapacity prevailing in the denim industry. Furthermore on account of higher fixed cost overheads amidst lower sales led to decline in PBILDT margin to 4.60% in FY20 from 8.19% in FY19. Subsequently, the company made net loss of Rs.16.5 crore in FY20 as against net profit of Rs.11 crore in FY19. KGDL also made cash loss of Rs.4.5 crore in FY20 as against cash profit of Rs.27.1 crore in FY19.

Moderate capital structure and debt coverage indicators*:* The overall gearing moderated to 1.96x as on March 31, 2020 as against 1.86x as on March 31, 2019 on account of net losses in FY20. The interest coverage also stood weak and moderated to 1.01x in FY20 from 2.27x in FY19 due to declined operating profits.

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 promoters: Mr. K.G Baalakrishnan, B.Com, B.L, the Executive Chairman has been associated with the textile industry for more than 45 years and has been 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 the textile sector. KGDL has been in the denim business for over two decades.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE 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 than repayment obligations, highly utilized bank limits and modest cash balance of Rs.0.93 crore (PY: Rs.4.56 crore) as on March 31, 2020. 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 102 days in FY20 from 80 days in FY19 due to slow movement of finished goods. The average working capital utilization stood at around 80% for the past 12 months ended July 2020. The company had opted for moratorium for the interest and principal during the period April to August 2020 as a relief measure offered by the banks for Covid pandemic.

Industry Outlook and prospects:

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 Coivd-19 pandemic. Further, the labour intensive nature of operations of the textile sector could impact its profitability due to sub optimal capacity utilization in near term for ensuring adherence to norms of social distancing. Though KGDL commenced operations partially from April 2020 post lockdown, with Indian denim fabric industry already witnessing an over-supply situation further impacted by slowdown in demand due to Coivd-19 pandemic, it would be challenging for the company to achieve optimum capacity utilization levels to reduce fixed cost overheads

Analytical approach:

Standalone

Applicable Criteria

Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
Financial ratios –Non-Financial Sector
CARE's methodology for manufacturing companies
Liquidity Analysis of Non-Financial Sector Entities

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 2019, KGDL has an installed capacity of 256 looms and can process upto 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)	FY19 (A)	FY20 (A)
Total operating income	693.6	495.5
PBILDT	56.8	22.8
PAT	10.9	(16.5)
Overall gearing (times)	1.86	1.96
Interest coverage (times)	2.27	1.01

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

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	82.69	CARE BB+; Stable
Fund-based - ST-Packing Credit	-	-	-	42.58	CARE A4+

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
in Foreign Currency					
Fund-based - LT-Cash Credit	-	-	-	31.53	CARE BB+; Stable
Fund-based - ST-FBN / FBP	-	-	-	59.19	CARE A4+
Non-fund-based - ST-Letter of credit	-	-	-	14.74	CARE A4+
Non-fund-based - ST-Bank Guarantees	-	-	-	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 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	82.69	CARE BB+; Stable	-	1)CARE BBB-; Negative (06-Sep-19)	1)CARE BBB-; Stable (22-Nov-18)	1)CARE BBB-; Stable (18-Aug-17)
2.	Fund-based - ST-Packing Credit in Foreign Currency	ST	42.58	CARE A4+	-	1)CARE A3 (06-Sep-19)	1)CARE A3 (22-Nov-18)	1)CARE A3 (18-Aug-17)
3.	Fund-based - LT-Cash Credit	LT	31.53	CARE BB+; Stable	-	1)CARE BBB-; Negative (06-Sep-19)	1)CARE BBB-; Stable (22-Nov-18)	1)CARE BBB-; Stable (18-Aug-17)
4.	Fund-based - ST-FBN / FBP	ST	59.19	CARE A4+	-	1)CARE A3 (06-Sep-19)	1)CARE A3 (22-Nov-18)	1)CARE A3 (18-Aug-17)
5.	Non-fund-based - ST-Letter of credit	ST	14.74	CARE A4+	-	1)CARE A3 (06-Sep-19)	1)CARE A3 (22-Nov-18)	1)CARE A3 (18-Aug-17)
6.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A4+	-	1)CARE A3 (06-Sep-19)	1)CARE A3 (22-Nov-18)	1)CARE A3 (18-Aug-17)

Annexure 3: Complexity level of various instruments rated for this company

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 Guarantees	Simple
6.	Non-fund-based - ST-Letter of credit	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.*

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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.

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