K G Denim Limited

September 06, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	114.22 (reduced from 137.75)	**CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**	**Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**
Short-term Bank Facilities	117.01 (reduced from 122.22)	**CARE A3 (A Three)**	**Reaffirmed**
Total Facilities	**231.23 (Rupees Two hundred Thirty one crore and Twenty Three lakh 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 factor in 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. The ratings, however, are constrained by leveraged capital structure, moderate profitability indicators, moderate debt coverage metrics, exposure to fluctuation in raw material prices and cyclical nature of the denim industry.

Going forward, the ability of KGDL to scale up operations, improve profit margins, improve its liquidity position and capital structure would be the key rating sensitivities.

The outlook is 'Negative' on account of the over capacity prevailing in denim industry resulting in demand-supply mismatch leading to pricing pressure and this along with increase in raw material prices and other fixed costs, the operating profit margins are expected to be muted going forward. Any sharp decline in profits and consequent impact on the liquidity or capital structure of the company may lead to a downward revision in the rating. The outlook may be revised to 'Stable' if the company is able to ramp up sales and improve profitability.

Detailed description of key rating drivers

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 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, TAL. Sri Kannapiran Mills Limited, 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.

Established network and clientele base: KGDL enjoys a well-established network of own sales offices, agents and distributors in the domestic market. Exports accounted for about 42.88% (PY: 38.25%) of the total sales during FY19. Besides denim fabrics KGDL caters to the non-denim market under which it exports 100% of Home linen and ~20% of dyed fabrics produced to various destinations. The top five customers contributed to 17.80% of the total sales in FY19 as against 14% in FY18.

Improved profit margins in FY19: The operating income of the company increased from Rs.637.9 crore in FY18 to Rs.693.6 crore in FY19 registering growth of 8.73%. The PBILDT margin improved from 7.25% in FY18 and to 8.19% in FY19 on account of better export sales and favorable forex rates. The PAT margin also improved from 0.91% in FY18 to 1.58% in FY19.

Key rating weaknesses

Decline in profitability during Q1FY20: The operating income in Q1FY20 has decreased by 22.39% from Rs.161.6 crore in Q1FY19 to Rs.125.5 crore in Q1FY20 mainly due to sluggish demand in export market. The company had lower production during Q1FY20 in line with lower demand and further with higher fixed cost overheads and prevailing higher raw material

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

prices led to decline in PBILDT margin to 4.54% in Q1FY20 as against 7.17% in Q1FY19.With higher interest costs and depreciation, the company made net loss of Rs.4.2 crore in Q1FY20.

Moderate capital structure and debt coverage indicators: The debt coverage indicators improved with Total debt/ GCA of 7.81x as on March 31, 2019 (PY: 9.21x). The interest coverage ratio improved from 1.90x in FY18 to 2.27x in FY19.The adjusted overall gearing stood at 2.81x as on March 31, 2019 (PY: 2.77x).

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. Being a commodity in nature, prices of the raw material are inherently volatile in nature. The raw cotton and Yarn cost constitute around 80% of total raw material consumption while the rest is contributed by dyes and chemicals.

Adequate Liquidity: KGDL has sufficient accruals and cash balance to meet its repayment obligations**.** The company has working capital limits of Rs.133.3 crore and the average utilisation stood at 71.76% during the 12 months ended July 2019. The cash balance stood at Rs 4.65 crore as on March 31, 2019. The current ratio continues to be around unity, primarily due to company's higher reliance on debt to fund the working capital requirements and company's ability to negotiate with creditors on higher credit period.

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

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)	FY18 (A)	FY19 (A)
Total operating income	637.9	693.6
PBILDT	46.2	56.8
PAT	5.8	10.9
Overall gearing (times)	1.78	1.86
Interest coverage (times)	1.90	2.27

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 BBB-; Negative
Fund-based - ST-Packing Credit in Foreign Currency	-	-	-	42.58	CARE A3
Fund-based - LT-Cash Credit	-	-	-	31.53	CARE BBB-; Negative
Fund-based - ST-FBN / FBP	-	-	-	59.19	CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	14.74	CARE A3
Non-fund-based - ST-Bank Guarantees	-	-	-	0.50	CARE A3

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	82.69	CARE BBB-; Negative	-	1)CARE BBB-; Stable (22-Nov-18)	1)CARE BBB-; Stable (18-Aug-17)	1)CARE BBB- (22-Aug-16)
2.	Fund-based - ST-Packing Credit in Foreign Currency	ST	42.58	CARE A3	-	1)CARE A3 (22-Nov-18)	1)CARE A3 (18-Aug-17)	1)CARE A3 (22-Aug-16)
3.	Fund-based - LT-Cash Credit	LT	31.53	CARE BBB-; Negative	-	1)CARE BBB-; Stable (22-Nov-18)	1)CARE BBB-; Stable (18-Aug-17)	1)CARE BBB- (22-Aug-16)
4.	Fund-based - ST-FBN / FBP	ST	59.19	CARE A3	-	1)CARE A3 (22-Nov-18)	1)CARE A3 (18-Aug-17)	1)CARE A3 (22-Aug-16)
5.	Non-fund-based - ST-Letter of credit	ST	14.74	CARE A3	-	1)CARE A3 (22-Nov-18)	1)CARE A3 (18-Aug-17)	1)CARE A3 (22-Aug-16)
6.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A3	-	1)CARE A3 (22-Nov-18)	1)CARE A3 (18-Aug-17)	1)CARE A3 (22-Aug-16)

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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