

K G Denim Limited

November 22, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	137.75 (enhanced from 112.24)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	122.22 (reduced from 154.52)	CARE A3 (A Three)	Reaffirmed
Total	259.97 (Rupees Two Hundred Fifty Nine crore and Ninety Seven 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, continue to be constrained by moderate liquidity position, leveraged capital structure, moderate profitability indicators during FY18 (refers to the period ended April 1 to March 31), 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 in its non-denim business, improve profit margins amidst over capacity prevailing in denim industry, improve its liquidity position and capital structure would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Early entrant and one of the leading manufacturers in the denim industry: KGDL has been in the denim business for over two decades. The promoters have been in textile business for more than seven decades. KGDL is one of the leading denim players in the country and the largest in Southern India. As on March 2018, KGDL has an installed capacity of 256 looms and can process up to 30 million meters of denim fabric per annum.

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 (SKML, 'rated CARE BB+; Stable/ CARE A4+'), a group company, is engaged in spinning business making the group a fully integrated player with presence across various segments of the textile value chain. KGDL's subsidiary, Trigger Apparels Limited (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 has established relationships with clients across several global markets attributable to the group's long standing presence in textile business. Besides denim fabrics, KGDL caters to the non-denim market (~40% of total sales) under which it exports 100% of Home linen and ~20% of dyed fabrics produced to various destinations. The top five customers contributed to 14% of the total sales in FY18 as against 15% in FY17.

Key Rating Weaknesses

Moderate financial performance during FY18: The operating income marginally increased from Rs.620.1 crore in FY17 to Rs.638 crore in FY18 at the growth rate of 2.86%. The PBILDT margin declined from 12.46% in FY17 to 7.36% in FY18 on account of increased power costs due to higher coal prices and increased raw material expenses. The PAT margin also declined 3.96% in FY17 to 0.91% in FY18. During H1FY19 (refers to the period April 1 to September 30), as per provisional results, the company reported PAT of Rs.6.9 crore on total income of Rs.345.2 crore.

Leveraged capital structure with proposed debt-funded capex: Since the beginning of FY18, KGDL had been incurring capex on replacement of older looms, upgradation of existing machineries such as warping machines, mercerizer machines, coating machines, installation of humidification plant, addition of new looms for manufacture of narrow width denim fabric at the total envisaged cost of ~Rs.50 crore primarily funded by debt. On account of the same, the capital

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

structure moderated with overall gearing of 1.78x as on March 31, 2018 as against 1.42x as on March 31, 2017. The debt coverage indicators also moderated with Total debt/ GCA of 9.21x as on March 31, 2018 (PY: 3.90x).

Working capital intensive nature of operations: The current ratio continues to be around unity, primarily due to company's higher reliance on debt to fund the working capital requirements. The company has working capital limits of Rs.128.3 crore and the average utilisation stood at 77.21% during the 12 months ended October 2018. The company had free cash balance of Rs.3.30 crore as on March 31, 2018 as against Rs.1.96 crore as on March 31, 2017. KGDL in its board meeting dated Nov 14, 2018, approved the proposal to buy back equity up to 25,00,000 shares of Rs.10 each at the price of Rs.40 per share payable in cash aggregating not exceeding Rs.10 crore.

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 constituted ~80% of the total raw material consumption during FY17 and the rest is contributed by dyes and chemicals. The average consumption price of yarn per kg increased from Rs.225 in FY17 to Rs.234 in FY18 which had an impact on profitability.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

[Rating Methodology - Cotton Yarn Industry](#)

About the Company

KGDL was incorporated in the year 1992 by Mr K Govindaswamy Naidu, founder of KG group to manufacture denim fabric. The company entered into non-denim business (processing cotton-based fabric and home textiles) during FY07. As on March 2018, KGDL has an installed capacity of 256 looms and can process up to 30 million meters of denim fabric per annum.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	620.1	637.9
PBILDT	77.7	46.2
PAT	24.6	5.8
Overall gearing (times)	1.42	1.78
Interest coverage (times)	2.98	1.90

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

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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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	107.08	CARE BBB-; Stable
Fund-based - ST-Packing Credit in Foreign Currency	-	-	-	40.03	CARE A3
Fund-based - LT-Cash Credit	-	-	-	30.67	CARE BBB-; Stable
Fund-based - ST-FBN / FBP	-	-	-	57.60	CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	24.09	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	107.08	CARE BBB-; Stable	-	1)CARE BBB-; Stable (18-Aug-17)	1)CARE BBB- (22-Aug-16)	1)CARE BB (06-Oct-15)
2.	Fund-based - ST-Packing Credit in Foreign Currency	ST	40.03	CARE A3	-	1)CARE A3 (18-Aug-17)	1)CARE A3 (22-Aug-16)	1)CARE A4 (06-Oct-15)
3.	Fund-based - LT-Cash Credit	LT	30.67	CARE BBB-; Stable	-	1)CARE BBB-; Stable (18-Aug-17)	1)CARE BBB- (22-Aug-16)	1)CARE BB (06-Oct-15)
4.	Fund-based - ST-FBN / FBP	ST	57.60	CARE A3	-	1)CARE A3 (18-Aug-17)	1)CARE A3 (22-Aug-16)	1)CARE A4 (06-Oct-15)
5.	Non-fund-based - ST-Letter of credit	ST	24.09	CARE A3	-	1)CARE A3 (18-Aug-17)	1)CARE A3 (22-Aug-16)	1)CARE A4 (06-Oct-15)
6.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A3	-	1)CARE A3 (18-Aug-17)	1)CARE A3 (22-Aug-16)	1)CARE A4 (06-Oct-15)

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