

Zonac Knitting Machines Private Limited

March 21, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	21.51	CARE BBB; Stable (Triple B ; Outlook:Stable)	Reaffirmed
Long-term/Short-term Bank Facilities	2.50	CARE BBB; Stable/ CARE A3+ (Triple B ; Outlook:Stable/A Three Plus)	Reaffirmed
Total	24.01 (Rupees Twenty Four crore and one lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The ratings of Zonac Knitting Machines Private Limited (ZKM) continue to derive strength from the experienced management, long track record of operations, moderate financial risk profile characterized by consistency in PBILDT margins, comfortable capital structure and satisfactory coverage indicators. The ratings further draw comfort from moderate operating cycle along with well-established marketing & distribution network and brand presence.

The ratings, however, continue to be constrained by ZKM's modest scale of operations, exposure to raw material price volatility and high level of competition.

Going forward, the ability of the company to increase the scale of operations while managing its working capital requirements efficiently, and maintaining its favorable capital structure are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters Zonac Knitting Machines Private Limited is currently being managed by Mr Raj Kumar Jain and Mr Sanjay Jain having experience of about 30 years through their association with ZKM.

Moderate profitability margins, Moderate capital structure and satisfactory coverage indicators ZKM continues to operate at moderate profitability levels on account of established brand presence and market setup which helped company to fetch better margins. The capital structure of the company continues to remain moderate owing to moderate net worth base against debt levels. Furthermore, owing to moderate profitability coverage indicators continues to remain at a satisfactory level.

Moderate Operating Cycle The operating cycle stood moderate at 91 days for FY16. The company maintains inventory in the form of raw material, WIP goods and finished goods for supporting its business activity. 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. Furthermore, the average working capital utilization has been around 56% for the past 12 months ended January 31, 2017.

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.

Key rating weaknesses

Modest scale of operations: Despite the growth registered on y-o-y basis in last 3 financial years (FY14-FY16) the scale of operations stood modest which limits the company's financial flexibility in times of stress and deprives it from scale benefits.

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

Exposure to raw material price volatility: 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. 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.

High level of competition: 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

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook 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](#)

About the Company

Greater Noida, Uttar Pradesh based Zonac Knitting Machines Private Limited (ZKM) was incorporated in 1988 and is currently being managed by Mr Raj Kumar Jain and Mr Sanjay Jain. The company is engaged in the manufacturing of hosiery garments, i.e., socks, stockings, tights, leggings, handkerchief, etc for men, women and kids, at its manufacturing facility located at Greater Noida with total installed capacity of 2.26 crore pair/pieces as on December 31, 2016. The main raw materials include different type of yarns which are directly procured from the manufacturers located in Delhi, Maharashtra, Punjab, etc. ZKM sells the products under its own brands, i.e., 'Bonjour', 'Bongio' and 'Vami', mainly in the domestic market and also exports the same. ZKM markets and sells its products through its own distributors, tie ups with domestic retail chains as well as eight exclusive brand outlets (EBO's) under its group concern, Bonjour Retail. The company also manufactures for big retail chain 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.

For FY16 (refers to the period April 01 to March 31), ZKM achieved a total operating income (TOI) of Rs.82.58 crore with profit after tax (PAT) of and Rs.3.59 crore, respectively, as against TOI of Rs.72.79 crore with PAT of Rs.1.50 crore, in FY15. Furthermore, the company has achieved total TOI of Rs.67.48 crore till 9MFY17 (refers to the period April 01 to December 31, based on provisional results).

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: Mr Achin Nirwani

Tel: 011- 45333228

Email: achin.nirwani@careratings.com

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

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	August, 2021	7.01	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	14.50	CARE BBB; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	2.50	CARE BBB; Stable / 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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	7.01	CARE BBB; Stable	-	1)CARE BBB (14-Mar-16)	1)CARE BBB- (13-Mar-15) 2)CARE BBB- (08-Apr-14)	-
2.	Fund-based - LT-Cash Credit	LT	14.50	CARE BBB; Stable	-	1)CARE BBB (14-Mar-16)	1)CARE BBB- (13-Mar-15) 2)CARE BBB- (08-Apr-14)	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	2.50	CARE BBB; Stable / CARE A3+	-	1)CARE BBB / CARE A3+ (14-Mar-16)	1)CARE BBB- / CARE A3 (13-Mar-15) 2)CARE BBB- / CARE A3 (08-Apr-14)	-

CONTACT**Head Office Mumbai****Mr. Amod Khanorkar**

Mobile: + 91 98190 84000

E-mail: amod.khanorkar@careratings.com**Mr. Saikat Roy**

Mobile: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CREDIT ANALYSIS & RESEARCH LIMITED**

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. Mehul Pandya**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-98242 56265

Tel: +91-79-4026 5656

E-mail: mehul.pandya@careratings.com**BENGALURU****Mr. Deepak Prajapati**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com**CHANDIGARH****Mr. Sajan Goyal**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@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**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**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**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**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**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**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

CIN - L67190MH1993PLC071691