

Zonac Knitting Machines Private Limited

April 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	21.84	CARE BBB+; Stable (Triple B plus; Outlook: Stable)	Revised from CARE BBB (Triple B)
Long/Short-term Bank Facilities	2.17	CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Revised from CARE BBB/A3+ (Triple B /A Three Plus)
Total	24.01 (Rupees Twenty Four crore and One Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and key rating drivers

The revision in the ratings of Zonac Knitting Machines Private Limited (ZKM) factors in the growth in the scale of operations coupled with improvement in profitability margins, capital structure and coverage indicators along with satisfactory liquidity indicators. Further, the rating continues to draw comfort from experienced promoters, long track record of operations and strong brand presence and well established marketing and distributor network.

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

Going forward, the ability of ZKM to increase its scale of operations while improving its profitability margin and maintaining its capital structure shall be the key rating sensitivities. Furthermore, funding profile of any future plans for capital expenditure shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

ZKM had been in the hosiery products manufacturing industry since 1988 which enables establishing relationship with both customers and suppliers. The company is currently being managed by Mr. Raj Kumar Jain and Mr. Sanjay Jain having experience of more than two and half decades and of nearly two decades through their association with ZKM.

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 has established marketing and distribution network which comprises of 137 distributors and more than 8000 retailers.

Improvement in the overall financial risk profile

The total operating of the company has increased from Rs.82.04 crore in FY16 to Rs.87.18 crore in FY17 at a growth rate of 6.26% on account of higher quantity sold in to it's domestic as well as overseas market. In 9MFY18 company achieved sales of Rs.83.31 crore.

The profitability margins of the company improved as marked by PBILDT margin of 13.17% in FY17 as against 11.78% in FY16. The improvement in the PBILDT margin was on account of economies of scale and change in product mix. Furthermore, PAT margin also improved in line with the PBILDT margin and stood at 4.92% in FY17 as against 4.37% in FY16. In 9MFY18 PBILDT and PAT margin stood at 13.42% and 7.83% respectively.

The capital structure of the company improved marked by overall gearing of 0.67x as on March 31, 2017 as against 0.75x as on March 31, 2016. The marginal improvement in the overall gearing ratio is owing to repayment of rupee term loan coupled with higher net worth owing to accretion of profits to reserves.

Furthermore on account of healthy profitability margins, the coverage indicators also continue to remain comfortable Interest coverage and total debt / GCA of 5.68x and 2.42x for FY17 as against 5.46x and 2.69x for FY16. The improvement in the coverage indicators was on account of higher PBILDT subsequently resulting into higher gross cash accruals.

Moderate Operating Cycle and satisfactory liquidity indicators

The operating cycle continues to remain at 91 days for FY17. The company maintains inventory in 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. Moreover, the average working capital utilization has been around 16% for period ended January 31, 2018.

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

Liquidity position of the company is characterized by a satisfactory current ratio, which stood over 1.47 times as at the end of FY17. Moreover, the company had unencumbered cash and bank balances of Rs.4.53 crore as at the end of FY17.

Key Rating Weakness

Modest scale of operations

The scale of operations has remained modest marked by a total operating income (TOI) and gross cash accruals of Rs. 87.18 crore and Rs.7.14 crore respectively during FY17 (FY refer to April 01 to March 31). The modest scale limits the company's financial flexibility in times of stress and deprives it from scale benefits.

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 Entity

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 2.00 crore pair/pieces as on January 31, 2018. 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. 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.

(Rs. In crores)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)	9MFY18
Total operating income	82.04	87.18	83.31
PBILD	9.66	11.48	12.96
PAT	3.59	4.29	6.52
Overall gearing (times)	0.75	0.67	-
Interest coverage (times)	5.46	5.68	-

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

About CARE Ratings:

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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	-	-	September, 2021	6.34	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	15.50	CARE BBB+; Stable
Non-fund-based - LT/ST-Bank Guarantees	-	-	-	2.17	CARE BBB+; Stable / CARE A2

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-Term Loan	LT	6.34	CARE BBB+; Stable	-	1)CARE BBB; Stable (21-Mar-17)	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	15.50	CARE BBB+; Stable	-	1)CARE BBB; Stable (21-Mar-17)	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	2.17	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (21-Mar-17)	1)CARE BBB / CARE A3+ (14-Mar-16)	1)CARE BBB- / CARE A3 (13-Mar-15) 2)CARE BBB- / CARE A3 (08-Apr-14)

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CIN - L67190MH1993PLC071691