

## Zonac Knitting Machines Private Limited

April 04, 2019

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long term Bank Facilities	18.63	CARE BBB+; Stable (Triple B Plus; Outlook- Stable)	Reaffirmed
Long / Short-Term Bank Facilities	4.00	CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook- Stable / A Two)	Reaffirmed
<b>Total</b>	<b>22.63</b> <b>(Rupees Twenty-Two Crore and Sixty-Three Lakh Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Zonac Knitting Machines Private Limited (ZKMPL) continues to draw comfort from the experienced management and long track record of operations, strong brand presence and a well-established marketing and distributor network. The ratings further draw comfort from the moderate profitability margins, comfortable solvency position and satisfactory liquidity indicators. The ratings however, continue to remain constrained by the modest scale of operations, exposure of profitability to raw material price volatility and the presence of the company in highly competitive industry. The ratings are further constrained on account of competitive nature of industry.

Going forward, the ability of ZKM to increase its scale of operations, improving its profitability margins and maintaining its capital structure and efficiently managing its working capital requirements 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 management and long track record of operations**

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 an average experience of more than two decades through their association with ZKM. In addition, they are assisted by a team who has requisite experience in their respective fields.

#### **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.

#### **Moderate profitability margins**

The profitability margins of the company continue to remain moderate as marked by PBILDT margin of 14.32% in FY18 (period refers to April 1 to March 31) as against 13.17% in FY17. The improvement in the PBILDT margin was on account of decline in cost of production due to economies of scale and change in product mix. The PAT margin improved in line with the PBILDT margin and stood at 6.53% in FY18 as against 4.92% in FY17.

#### **Comfortable solvency position**

The capital structure of the company continues to remain comfortable marked by overall gearing of 0.49x as on March 31, 2018 as against 0.67x as on March 31, 2017. The marginal improvement in the overall gearing ratio is attributable to scheduled repayment of term loans coupled with lower utilization of working capital limits along with accretion of profits to reserves.

Further, with improved profitability and low gearing levels the debt coverage indicators also strengthened and continue to remain comfortable marked by interest coverage ratio and total debt/gross cash accruals of 11.88x and 1.60x respectively for FY18 as against 5.68x and 2.42x for FY17.

#### **Moderate liquidity position**

The operating cycle continues to remain moderate at 91 days for FY18. 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. The average working capital utilization has remained at moderate levels for period ended February 28, 2019.

Liquidity position of the company is characterized by a satisfactory current ratio, which stood over 1.98 times as on March 31, 2018. Moreover, the company had unencumbered cash and bank balances of Rs.1.00 crore as at the end of

<sup>1</sup>Complete definitions of the ratings reaffirmed are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

FY18. Cash flow from operating activities stood at Rs.2.12 crore as on March 31, 2018.

### **Key Rating Weaknesses**

#### ***Modest though growing scale of operations***

Despite being in operations for more than two decades, the scale of operations has remained modest marked by a total operating income (TOI) and gross cash accruals of Rs.103.95 crore and Rs.9.81 crore respectively during FY18. Furthermore, the net-worth base stood modest at Rs. 32.41 crore as on March 31, 2018. The same limits the company's financial flexibility in times of stress and deprives it from the benefits of scale. However, the company has registered a healthy CAGR of 12.56% in TOI during the last three years ended FY18.

Further, company has achieved total operating income of Rs.92.78 crore in 9MFY19 (Unaudited: refers to the period from April 01 to December 31).

#### ***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 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

#### ***Competitive nature of industry***

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](#)

[CARE's Methodology for Short Term Instrument](#)

[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 engaged in the manufacturing of hosiery garments, i.e., socks, stockings, tights, leggings and handkerchiefs amongst others. its the manufacturing facility is located at Greater Noida with total installed capacity of 2.00 crore pair/pieces per annum. ZKM sells the products under its own brands, i.e., 'Bonjour', 'Bongio' and 'Vami'. The company also manufactures for large retail chains 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. Cr)	
<b>Brief Financials (Rs. crore)</b>	<b>FY17 (A)</b>	<b>FY18 (A)</b>
Total operating income	87.18	103.95
PBILDT	11.48	14.88
PAT	4.29	6.79
Overall Gearing (Including Acceptances / Creditors on LC)	0.67	0.49
Interest coverage (times)	5.68	11.88

A-Audited

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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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	-	-	September, 2021	3.13	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	15.50	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	4.00	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 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	3.13	CARE BBB+; Stable	1)CARE BBB+; Stable (03-Apr-18)	-	1)CARE BBB; Stable (21-Mar-17)	1)CARE BBB (14-Mar-16)
2.	Fund-based - LT-Cash Credit	LT	15.50	CARE BBB+; Stable	1)CARE BBB+; Stable (03-Apr-18)	-	1)CARE BBB; Stable (21-Mar-17)	1)CARE BBB (14-Mar-16)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	4.00	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (03-Apr-18)	-	1)CARE BBB; Stable / CARE A3+ (21-Mar-17)	1)CARE BBB / CARE A3+ (14-Mar-16)

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