

Press Release**M/s. Kandhan Knitss****June 24, 2019****Rating**

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Packing Credit	10.00*	IVR B / Stable outlook [IVR B with Stable outlook] and IVR A4 [IVR A Four]
2.	Short term facilities- Bill Discounting	7.00	IVR A4 [IVR A Four]
3.	Proposed Long term facilities	1.00	IVR B / Stable outlook [IVR B with Stable outlook]
	Total	18.00	

*Including sub limit of Cash Credit of Rs. 5 crore

Details of Facilities are in Annexure I**Detailed Rationale**

The rating of Kandhan Knitss derives comfort from the experience of the partners in readymade garment industry, diversified product profile, reputed client base and comfortable capital structure. The rating also takes into consideration the modest scale of operations, stretched debt protection metrics, limited liability partnership nature of constitution and risk of withdrawal of capital and exposure to foreign exchange risk. Scale of operations, capital structure and working capital utilization are the key rating sensitivities.

Detailed Description of the Key Rating Drivers**Key Rating Strengths****Experience of the partners in readymade garment industry**

The partners have long standing experience in the readymade garments industry. Mr. P. Dhanapal has over 20 years of experience in readymade garment business and Mrs. D. Saranya has over decade of experience. The company is benefited by experienced management and has helped the company to maintain healthy and long standing relations with the customers.

Diversified product profile and reputed client base

Kandhan knitss has a diversified product profile covering a wide range of products such as T-shirts, polos, sweat shirtss and all kinds of knit tops. The company also undertakes latest print and embroidery garment techniques, burnouts, crushed, garment dyed, CPD, all kinds of garment wash. The top 5 customers contribute around 22.13% of total sale in FY19 (provisional). The firm is likely to benefit from its reputed client base including Pepe Jeans India Limited and Aditya Birla Fashion And Retail Ltd.

Comfortable capital structure

The company has comfortable capital structure reflected in overall gearing of 0.79x and long term debt equity ratio of 0.17x in FY19 (provisional) compared with 0.74x and 0.23x, respectively in FY18. The TOL/TNW stood 0.83x in FY19 (provisional).

Key Weaknesses

Modest scale of operations

Kandhan knitss has a modest scale of operations in a highly fragmented industry as reflected in net sales of Rs. 48.45 crore in FY19 (provisional), improved from Rs. 46.15 crore in FY18. Though, the scale is expected to improve over the medium term on the back of a healthy order book, it will continue to remain modest. The profitability margins like PAT margin remained modest due increase in interest cost.

Stretched debt protection metrics

The firm had a net worth of Rs.27.14 crore as on FY19 (provisional). Though, the net worth improved in FY19, debt protection metrics remained moderate with interest coverage of 2.43x in FY19 (provisional) and total debt/ GCA stood 5.67.

Limited Liability partnership nature of constitution and risk of withdrawal of capital

Kandhan knitss, being a limited liability partnership, is exposed to the inherent risk of the capital being withdrawn at the time of personal contingency and the firm being dissolved upon the death/insolvency of the partners. Further, a limited liability partnership has restricted access to external funds.

Exposure to foreign exchange risk

The entity is exposed to risk of adverse movement of foreign exchange fluctuations. The entity generally exports to Germany, France and Netherland.

Liquidity

The firm is expected to generate sufficient cash accruals going forward in projected period as against the stretched position in FY19. The current ratio and quick ratio remained close to unity. Further, firm is able to generate moderate cash accrual due to minimal repayment obligation. Liquidity is further supported by financial support from infusion of funds by the partners of the firm. However, the firm's utilisation of bank limits has remained high at XX%, especially since September 2018.

About the Company

Kandhan Knitss was set up in 2003 as a partnership firm. The firm is managed by Mr. P. Dhanapal and Mrs. D. Saranya. The firm is engaged in manufacture of T-shirt, sweat shirts and polos for domestic as well as for other exporter markets. Kandhan Knitss is a specialist in value added garments. The manufacturing plant is located at Perumanallur, Tirupur, which is a well know textile industry town. The firm has a second production facility in Gobichettipalayam (started in 2014) with 250 sewing machines.

Financials (Standalone)

(Rs. crore)

For the year ended/ As On	31-03-2018 (Audited)	31-03-2019 (Provisional)
Total Operating Income	46.15	48.45
EBITDA	0.34	5.78
PAT	-0.28	0.69
Total Debt	19.72	21.54
Tangible Networth	26.50	27.14
<u>Ratios</u>		
EBITDA Margin (%)	0.74	11.92
PAT Margin (%)	-ve	1.40

Overall Gearing Ratio (x)	0.74	0.79
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Note: Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Packing Credit	Short	10.00 (Including sub limit of Cash Credit of Rs. 5 crore)	IVR B / Stable outlook [IVR B with Stable outlook] and IVR A4 [IVR A Four]	--	--	--
2.	Short term facilities- Bill Discounting	Short	7.00	IVR A4 [IVR A Four]	--	--	--
3.	Proposed Long term facilities	Long	1.00	IVR B / Stable outlook [IVR B with Stable outlook]	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Ms. Mansi Korlekar

Tel: (022) 62396023

Email: mbkorlekar@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crores)	Rating Assigned/ Outlook
Packing Credit	--	--	--	10.00 (Including sub limit of Cash Credit of Rs. 5 crore)	IVR B / Stable outlook [IVR B with Stable outlook] IVR A4 [IVR A Four]
Short term facilities- Bill Discounting	--	--	--	7.00	IVR A4 [IVR A Four]
Proposed Long term facilities	--	--	--	1.00	IVR B / Stable outlook [IVR B with Stable outlook]