

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Hillman Hosiery Mills Pvt. Ltd.

May 14, 2018

Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Long Term Bank facilities (including proposed incremental limits of Rs.0.15 Cr)	15.00	IVR BB+ /Stable (IVR Double B Plus with Stable Outlook)	Assigned
Total	15.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Hillman Hosiery Mills Pvt. Ltd (Hillman) derive comfort from its experienced promoters and their demonstrated support, long track record of operations, diversified clientele and established arrangements for raw materials. The rating also factors in gradual growth in operations. However, the rating is constrained by its small scale of operations, susceptibility of profitability to volatile raw material prices, working capital intensive nature of operations, high gearing level along with stretched debt protection parameters and presence in the highly competitive inner wear segment. Growth in scale of operations, profitability, gearing level and efficient management of working capital are the key rating sensitivities.

List of Key Rating Drivers

- Experienced promoters with long track record & demonstrated support
- Diversified clientele
- Established arrangement with suppliers for raw materials
- Gradual growth in operations
- Small scale of operation
- Susceptibility of profitability to volatile raw material prices
- Presence in a highly competitive industry
- Working capital intensive nature of operations
- High gearing level along with stretched debt protection parameters

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Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters with long track record & demonstrated support

Hillman commenced its operation from 2004 and accordingly has a long track record of operations over a decade. The promoters, Shri Mahabir Prasad Prahladka and Shri Sanjiv Prahladka (son of Shri Mahabir Prasad Prahladka) are well experienced in the manufacturing and trading of hosiery items. Shri Mahabir Prasad is the founder of Hillman Brand, having an experience of 50 years in the hosiery market.

Diversified clientele

Hillman sells its products in different regions of the country throughout the year. It has a strong marketing network and has presence across most parts of Rajasthan, Uttar Pradesh, Delhi, West Bengal through a network of about 250 dealers & agents. Further, top five clients accounted for only ~36% of the company's total operating income in FY18 (Estimated) (FY refers to the period from April 1 to March 31) indicating diversified customer base.

Established arrangement with suppliers for raw materials

The major raw materials of the company are yarn, elastic, plastic, neck label chain & button etc. Hillman has long term business relation and established supply arrangements with its vendors for procuring the same. The company generally avail a credit period of about a month from its suppliers (mainly from wholesalers) which helps the company to manage its working capital requirements.

Growth in operations

The company has achieved satisfactory growth in operation over the past five years driven by expansion of capacity and reach during the aforesaid period. The total growth in operating income is on the increasing trend i.e. 6.4% in FY16 and 7.57% FY17 and about 15% in FY 18 mainly due to increase in capacity.

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Key Rating Weaknesses

Small scale of operation

Despite its long track record of operations, Hillman has a small scale of operation with total operating income of Rs.28.64 crore in FY17 and Rs.33 crore in FY18 (Estimated).

Susceptibility of profitability to volatile raw material prices

The key raw material required for manufacturing hosiery garments is yarn. The price of yarn is volatile in nature and accordingly the profitability is exposed to the volatility in raw material prices.

Presence in a highly competitive industry

Hosiery garment manufacturing industry is highly fragmented and unorganized in nature as 50-55% of the market is dominated by the unorganized players, thereby putting pressure on profitability of the industry participants. Furthermore, major players exist in the organized segment which makes the competition intense, which might put further pressure on profitability of the existing as well as new players. Hillman being a very small player compared to these big players might get hit by growing preferences for branded innerwear.

Working capital intensive nature of operations

Hillman's operations are working capital intensive marked by its high operating cycle of 170-210 days during FY15-FY17. High operating cycle is attributable to large inventory holding requirements for raw materials and finished products to support distributor/ dealer channel. Also, the company keeps seasonal winter garments in stock which floats up the stock even in other months. Further, to support the sales growth in highly competitive market, the company has to extend higher credit terms to its distributors. Accordingly, the company has to provide about 3-4 months credit period to the distributors/ retailers translating into higher collection period. The collection period has increased from 70-80 days to 90-120 days due to the introduction of GST. Also, the average utilisation of fund-based working capital bank limits was high at ~88%.

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High gearing level and stretched debt protection parameters

The debt profile of the company comprised working capital limits and non-subordinated unsecured loans from the promoters/body corporates due to its high working capital requirements. The capital structure of the company remained leveraged with the overall gearing ratio at 2.13x as on March 31, 2017. Further, Total debt to GCA also remained high at 25.59x in FY17.

Analytical Approach & Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

Hillman Hosiery Mills Private Limited (Hillman) was incorporated as a private limited company on March 29, 2004 by Kolkata based Shri Mahabir Prasad Prahladka and Shri Sanjiv Prahladka (Son of Shri Mahabir Prasad Prahladka). Hillman is engaged in manufacturing of hosiery undergarments i.e. briefs & vests for men, women & kids segments under the Brand name of Hillman for over a decade. Besides, it is also in manufacturing of seasonal items like winter wear for all segments. The company has its manufacturing unit and godown at Srijan Industrial Logistics Park in Howrah with an installed capacity of 14000 pieces per day and a godown at Cossipore Road, Kolkata.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2016	31-03-2017
	Audited	Audited
Total Operating Income	26.63	28.64
EBITDA	2.02	2.43
PAT	0.41	0.58
Total Debt	11.86	15.61
Tangible Net worth	6.75	7.33
EBITDA Margin (%)	7.60	8.48
PAT Margin (%)	1.52	2.01
Overall Gearing Ratio (x)	1.76	2.13

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits - Cash Credit	Long Term	13.90 (including proposed incremental limits of Rs.0.15 Cr)	IVR BB+ / Stable Outlook	-	-	-
2	Long Term Fund Based Limits - Term Loan	Long Term	1.10	IVR BB+ / 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.

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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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	13.90 (including proposed incremental limits of Rs.0.15 Cr)	IVR BB+ /Stable Outlook
Term Loan	December-2017	10.25%	March - 2024	1.10	IVR BB+ /Stable Outlook