KKP Textiles Private Limited
November 14, 2024

Ratings

Facilities	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	105.00	IVR BBB-; Positive (IVR Triple B Minus with Positive Outlook)	IVR BBB-; Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed with revision in outlook from Stable to Positive	Simple
Short Term Bank Facilities	10.00	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)	Reaffirmed	Simple
Total	**115.00 (INR One hundred fifteen crore only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The reaffirmation in the ratings assigned to the bank facilities of KKP Textiles Private Limited (KKPTPL) continues to derive comfort from its steady business performance in FY24 [FY refers to the period from April 1 to March 31] amid adverse Textile industry scenario with improvement in operating margin supported by long track record of operation under experienced promoter and long-established relationships with customers and suppliers. The ratings are further supported by its moderate capital structure backed by fresh infusion of subordinated unsecured loan by the promoters along with average debt protection metrics. However, these rating strengths remain constrained by KKPTPL's exposure in associate company and high working capital intensive nature of the business. Further, the ratings also note KKPTPL's presence in highly fragmented, competitive and cyclical industry with susceptibility of profitability to volatility associated with input prices.

The revision in outlook from stable to positive reflects expected improvement in the business performance of the company which is expected to fuel the improvement in financial risk profile underpinned by recovery in the textile industry.

Key Rating Sensitivities:

Upward factors

- Substantial and sustained growth in operating income, operating margin and cash accrual
- Improvement in capital structure and/or improvement in debt protection metrics with improvement in adjusted overall gearing to below 1x and improvement in interest coverage ratio to above 2.5x
- Improvement in working capital management with improvement in liquidity

Downward Factors

- Moderation in operating income and/or moderation in cash accrual impacting the debt protection metrics on a sustained basis
- Withdrawal of subordinated unsecured loan amounting to Rs.25.80 crore treated as quasi equity
- Any unplanned capex leading to impairment in capital structure with moderation in adjusted overall gearing to over 2x and/or moderation in interest coverage to below 1.5x
- Stretch in the working capital cycle driven by pile-up of inventory and/or stretch in receivables impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Long track record of operation under experienced management**

The promoter, Mr. P. Chinnaswamy, has an experience of more than 40 years in the textiles industry. Mrs. C. Selvi, wife of Mr. P. Chinnaswamy has around 30 years of experience in the industry. They are ably supported by a team of qualified professionals. KKPTPL has an established presence and long track record of around three decades.

- **Steady revenue generation amid adverse industry scenario with improvement in profit margins**

The Indian textile industry has gone through a rough phase for past two consecutive fiscal years i.e. FY23 and FY24 owing to multiple geopolitical crisis. Russia Ukraine war followed by the recession in European Union (EU) has led to a sluggish demand of textile products affecting the export which has impacted the domestic cotton and yarn price as well. Under the adverse industry scenario, total operating income of KKPTPL though slightly moderated, continues to remain steady at Rs.179.35 crore in FY24 as compared Rs.198.66 crore in FY23.

Further, supported by reduced raw material prices coupled with better overhead recovery; EBITDA margin of the company has improved to 11.78% in FY24 against 7.74% of FY23. Consecutively, PAT margin has also improved to 2.53% in FY24 as compared to 1.63% of FY23. Driven by improvement in profitability, GCA has improved to Rs.10.81 crore in FY24 (Rs.7.45 crore in FY23) and remain sufficient to meet the scheduled repayment obligations. In the present fiscal year (FY25) till September 2024, KKPTPL has generated revenue of ~Rs.120 crore with improved operating margin mainly driven by improvement in operational efficiency backed by recently concluded capex.

- **Long-term relationships with customers and suppliers**

KKPTPL has well diversified reputable clients in the domestic markets and has a strong base of suppliers. Most of the clients spread across India have been involved with the company for more than six years. The company sources its domestic raw material needs majorly from Coimbatore and Erode, through its varied supplier base. KKPTPL benefits from the promoters' established presence and long-standing relationships with various suppliers across the value chain.

- **Moderate capital structure with average debt protection metrics**

The promoters have infused fresh subordinated unsecured loans during FY24 to support its business operations and to fund the capex. Consequently, considering the subordinated unsecured loans amounting to Rs.25.80 crore, the adjusted tangible net worth (ATNW) of KKPTPL stood at Rs.75.34 crore as on March 31, 2024. Owing to the planned capex for installation of vortex machines better suited for manufacturing of viscose yarn, the debt level has elevated from Rs.81.93 crore in FY23 to Rs.106.51 crore in FY24 leading to moderation in the overall gearing ratio (including quasi equity) to 1.41x as on March 31, 2024, as against 1.30x as on March 31, 2023. Total indebtedness of the company marked by TOL/ATNW also marginally moderated yet stood satisfactory at 1.53x as on March 31,2024 as against 1.46x as on March 31, 2023. Notwithstanding the increase in absolute EBITDA, affected by higher finance cost, interest coverage ratio continues to remain satisfactory at 1.91x in FY24. Other debt protection metrics marked by total debt to EBITDA and total debt to GCA continues to remain high at 5.04x and 9.85 years respectively as on March 31, 2024.

Key Rating Weaknesses:

- **Exposure in associate company**

KKPTPL has extended corporate guarantee to one of its associate companies called KKP Wind Firms Private Limited. KKPTPL fulfils its requirements of power from KKP Windfarms Pvt. Ltd. KKP Windfarms have a solar capacity of 8MW and windmills with a capacity of 3.75MW. The corporate guaranteed exposure stood at Rs.34.84 crore as on March 31, 2024, which restricts the credit risk profile of KKPTPL to some extent. Including the corporate guaranteed debt, the adjusted overall gearing of KKPTPL stood at 1.88x as on March 31, 2024, improved from 2x as on March 31, 2023.

- **Susceptibility of profitability to volatility associated with raw material prices**

The company's profitability is susceptible to the movement in the prices of raw cotton which is the key raw material for production of cotton yarn. The prices of raw cotton are volatile in nature and depend upon factors such as area under production, yield, vagaries of monsoon, international demand supply scenario, inventory carry forward from the previous year and export quota along with minimum support price (MSP) decided by the government. Since raw cotton is an agricultural commodity, its availability is limited and primarily depends on the monsoon. This restricts the players from fully passing on the input cost increase to customers or retaining any benefits from lower input costs. As a result, the profit margins of the company are susceptible to the volatility in raw cotton prices. The company has made a shift to producing viscose yarn from FY23 as the price of viscose yarn is more stable.

- **Presence in highly fragmented and competitive industry and exposure to cyclical nature of industry**

The Indian textile industry consists of large, organized players who contribute to ~75 per cent of total installed capacity and the remaining ~25 per cent is contributed by unorganized segment. KKPTPL being a small player in this space, lacking the benefits of economies of scale. The intense competition in the highly fragmented textile industry also restricts its ability to completely pass on volatility in input cost to its customers. Similarly, the margin from cotton yarn segment is highly susceptible to changes in the prices of cotton.

- **Working capital intensive nature of operations**

KKPTPL's operations are working capital intensive as the raw material availability is seasonal. During this period the company has to procure raw material required for the entire year. i.e., till next season. The company has large working capital requirements which are reflected in an elongated conversion cycle of 242 days in FY24 (FY23: 230 days). The average fund based working capital utilization stood high at more than 90% for the last 12 months ended September 2024.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Criteria of assigning Rating Outlook

Policy on Default Recognition and Post-Default Curing Period

Financial Ratios & Interpretation (Non-Financial Sector)

Complexity Level of Rated Instruments/Facilities

Liquidity: Adequate

The liquidity position of KKPTPL is expected to remain adequate marked by sufficient accruals to repay its term debt obligations. The net cash accrual of the company stood at ~Rs.10.81 crore as against the repayment obligation of Rs.6.50 crore in FY24. With expected recovery of textile industry from FY25 onwards supported by anticipated benefit to be derived from the recently executed capex, KKPTPL is expected to generate steady cash accruals in the range of ~Rs.14-17 crore against scheduled debt repayment obligation of ~Rs. 9.69-10.54 crore during FY25-27. Current ratio of KKPTPL also stood comfortable at 1.80 times as on March 31, 2024. However, KKPTPL's average working capital utilisation which stood above 90% for past twelve months ended September 2024, suggests limited liquidity buffer. Further, any unplanned capex or stretch in operating cycle may affect the liquidity to some extent.

About the Company

KKP Textiles Pvt Ltd (KKPTPL) was incorporated in March 1984. Mr. P. Chinnaswamy is the Managing Director and Mrs. C. Selvi is the Director of the company. There were two manufacturing units located in Virali and Pudhupatti, Tamil Nadu, with a total of 57,792 spindles, 2,440 rotors and windmills with a capacity of 1.50 MW. However, on April 6, 2022, the Virali unit was demerged and was named as Dhakshan Textiles Pvt Ltd. Virali unit containing 28,656 spindles and windmills with a capacity of 1.50MW was transferred to Dhakshan Textiles Pvt Ltd. Virali unit is managed by Mr. N Satheshkumar and Mr. N. Subhashkumar, sons of Mr. P. Nallathambi. The other unit in Pudhupatti is presently being managed by Mr. P. Chinnaswamy and Mrs. C. Selvi with installed capacity of 29,136 spindles, 2440 rotors. In addition, newly installed 576 Vortex machines are fully operational from FY25 as well. Until FY22, the company used to export, majorly to China, Korea and Bangladesh. The exports became weak due to covid and the ongoing war between Russia and Ukraine. Therefore, KKPTPL then started to cater only to domestic market.

Financials of KKP Textiles Private Limited: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	198.66	179.35
EBITDA	15.37	21.13
PAT	3.25	4.58
Total Debt	81.93	106.51
Tangible Net worth (Book)	44.96	49.54
Tangible Net worth (Adjusted including Quasi)	62.89	75.34
EBITDA Margin (%)	7.74	11.78
PAT Margin (%)	1.63	2.53
Overall Gearing Ratio (x) (Adjusted including Quasi)	1.30	1.41
Interest Coverage	1.90	1.91

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: The ratings are continued under ISSUER NOT COOPERATING category from Brickworks Ratings vide per press release dated September 27, 2024, due to unavailability of information for monitoring of rating.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					Sep 05, 2023		
1.	Term Loan	Long Term	38.37	IVR BBB-/ Positive	IVR BBB-/ Stable	-	-
2.	GECL	Long Term	3.72	IVR BBB-/ Positive	IVR BBB-/ Stable	-	-
3.	Cash Credit	Long Term	57.00	IVR BBB-/ Positive	IVR BBB-/ Stable	-	-

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					Sep 05, 2023		
4,	DRUL	Long Term	5.00	IVR BBB-/ Positive	IVR BBB-/ Stable	-	-
5.	Letter Of Credit	Short Term	5.00	IVR A3	IVR A3	-	-
6.	Bill Discounting	Short Term	5.00	IVR A3	-	-	-
7.	Proposed Fund Based	Long Term	0.91	IVR BBB-/ Positive	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Term Loan	-	-	Aug 2030	38.37	IVR BBB-/ Positive
Cash Credit	-	-	-	57.00	IVR BBB-/ Positive
GECL	-	-	Dec 2027	3.72	IVR BBB-/ Positive
DRUL	-	-	-	5.00	IVR BBB-/ Positive
Fund Based Proposed	-	-	-	0.91	IVR BBB-/ Positive
Letter of Credit	-	-	-	5.00	IVR A3
Bill Discounting	-	-	-	5.00	IVR A3

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-KKP-Textiles-nov24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/combined analysis: Not Applicable

Press Release

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