

Rating Rationale

21 Oct 2019

KKP Fine Linen Pvt Ltd

Brickwork Ratings reaffirms the ratings for the bank loan facilities of Rs. 95.67 Crs of KKP Fine Linen Pvt Ltd ('KKPFLPL' or the 'Company')

Particulars:

Facility [^]	Amount (Rs Crs)		Tenure	Ratings [*]	
	Previous	Present		Previous (Jun 2018)	Present
Fund based:					
Cash Credit/ Line of Credit/ Packing Credit	57.00	57.00	Long term	BWR BBB/Stable	BWR BBB/Stable
Term Loans	0.85	0.67			
Bill Discounting	34.00	34.00	Short term	BWR A3+	BWR A3+
Non Fund based:					
Letter of credit	4.00	4.00			
Total	95.85	95.67	Rupees Ninety Five Crores and Sixty Seven Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings; Details of Bank facilities are provided in Annexure-I; [^]In addition, the Company has a forex cover of Rs. 6.00 cr which is not rated by BWR

Rating Action/Outlook

The reaffirmation of ratings reflects the company's operational track record, experienced management, established clientele and moderate financial risk profile marked by consistent growth in revenue, moderate net worth, moderate liquidity and adequate debt protection metrics. The ratings remain constrained by the susceptibility to volatility in cotton prices in an intensely competitive textile industry, exposure to foreign exchange fluctuations and high working capital requirements of the business.

The '**Stable**' outlook indicates a low likelihood of rating change over the medium term. BWR believes **KKP Fine Linen Pvt Ltd's** business risk profile will be maintained over the medium term. The outlook may be revised to Positive if a sustained increase in scale of operations and higher than envisaged profitability result in an improved financial risk profile and better gearing and debt protection metrics. The outlook may be revised to Negative if lower than expected revenue or profitability, a stretch in the working capital cycle, delay in obtaining enhancement

in working capital limits , sizeable, unanticipated capex or weakening gearing impact the financial risk profile.

Key rating drivers

Credit Strengths:

- **Strong group support & established track record - K.K.P. Spinning Mills Pvt Ltd** is a part of Namakkal (Tamil Nadu) based K.K.P. group, which is engaged in the manufacturing of cotton yarn, grey fabric, weaving fabric etc. The Group is reputed and has been in existence for around 25 years now. The group is vertically integrated, with facilities across spinning, knitting, printing, stitching, embroidery. Also, operations are end-to-end spanning conversion of cotton to ready-made knitwear. KKPFLPL, incorporated in 1989 is a vertically integrated textile producer and exporter of high quality bed linen and table linen and bedspread products.
- **Experienced management** - The management is experienced and the promoters have an experience of more than 30 years in the cotton ginning & textiles industry. The established presence coupled with longstanding relationships with various stakeholders across the value chain, has supported its performance across the business cycles.
- **Established relationships with reputed clientele-** The Company has running contracts with reputed customers in domestic & export markets. The Company also has a well-established supplier base both in domestic and foreign markets. During FY19, ~90% revenue was through export sales. The Company's main export customers are based in US, UK, France and Canada and most of the clients have been associated with the Company for more than 6 years. Vision Support Services Ltd, American Textile Company, Spring Canada Inc, etc are some of the top customers. The Company sources most of their raw materials domestically from Coimbatore, Aruppukottai, etc. The Company also purchases grey fabrics (unfinished woven or knitted fabrics) from the group companies and other fabric manufacturers to meet the peak season demands of the export markets. The Company has order book of ~ Rs 38 Crs, for execution in the next 1-2 months.
- **Moderate financial risk profile-** The company's risk profile continues to remain moderate reflected by modest networth, moderate gearing and adequate debt protection metrics. Net sales improved to Rs. 214.61 Crs in FY18 as against Rs. 178.05 Crs in FY17. PAT during FY18 was Rs. 2.95 cr as against Rs.3.25 cr during FY17. This decline in net profit was due to the rise in operating costs on account of employee benefits and finance costs. Tangible net worth was Rs. 16.90 crore as on 31st March 2018. Total debt/Tangible net worth was high at 3.80 times and Total outside liabilities/Tangible net worth was 3.56 times as on 31st March 2018. However, considering the unsecured loans

from group companies as quasi equity, the Adjusted Total debt/ Tangible net worth was 1.63 times as on 31st March 2018. DSCR remained adequate at 1.78 times for FY18, while ISCR was weak at 0.50 times, on account of the declined operating profit. However, ISCR improved to 2.63 times as per the FY19 provisional financials.

Credit Challenges:

- **Susceptibility of profitability to volatility in raw material prices and currency movements** – KKPFLPL is primarily engaged in the manufacturing and exports of Home Textile products viz. bed linen, quilts, pillow cases, etc. Similar to other textile companies, KKPFLPL's profitability remains exposed to volatility in the prices of cotton yarn, the main raw material. The intense competition constrains it from fully passing on any increase in raw material prices to its end customers, which may adversely impact its profitability. Besides, KKPFLPL derives ~90% of its revenues from exports and imports a portion of raw materials. Being a net exporter, the turnover and profitability of the company is inherently exposed to demand trends in the key export markets as well as fluctuations in foreign exchange rates. However, BWR notes that the company adequately hedges its forex exposure through forward contracts and packing credit facilities availed in foreign currency.
- **Intense competition in the textile industry and demand trends in key export markets** - KKPFLPL operates in a highly competitive textile industry, characterised by minimal product differentiation and fragmented nature, which restricts pricing flexibility. Indian textile products face stiff competition from the products from other countries like Bangladesh in the export market. Also, the demand for cotton fabric depends on the prices of polyester fabrics. Since, polyester yarn prices are linked to crude oil prices, any decline in crude oil prices can have an adverse impact on the demand for cotton fabric.
- **Working capital intensity:** The Company has large working capital requirements, as reflected in the moderately high inventory holding and receivable days over the last 3 years.

Analytical approach and Applicable Rating Criteria

BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale). The Company does not have any subsidiaries.

Rating sensitivities:

Ability of the company to scale up the operations and profitability and improving gearing level, while managing risks from volatile raw material prices, demand trends in export markets and forex fluctuations and ensure efficient management of working capital will remain crucial determinants of its credit profile.

Positive

- Healthy growth in revenues and earnings with improvement in competitive position, lending more diversity to its business profile and stability to earnings.

Negative

- Deterioration in key credit metrics owing to sustained pressure on operating profits or a sharp rise in inventory levels. Specific credit metrics which may result in a downward rating action include Total Debt/TNW exceeding 3 times, DSCR declining to below unity and ISCR below 1.5 times on a sustained basis.

Liquidity - Adequate: KKPFLPL's utilization of working capital remains high at around 90-95% over the last 12 months. Cash and Cash Equivalents were ~Rs. 0.14 cr, Current ratio was 1.39 times and Net cash accruals/Total Debt was 0.12 times as on 31 Mar 2019 (P). Projected cash accruals of ~Rs. 6 cr and ~Rs. 7 cr for FY20 & FY21 respectively are sufficient to meet debt repayment obligations of ~Rs. 1 cr each for FY20 & FY21 respectively. Going forward, timely enhancement of working capital facilities to support liquidity would be important for smooth operations.

About the Company

K.K.P. Fine Linen Pvt Ltd (KKPFLPL), incorporated in Mar 1989 at Namakkal (Tamil Nadu), is engaged in the vertically integrated textile production and export of high quality bed linen and table linen & bed products. The Company also purchases grey fabrics (unfinished woven or knitted fabrics) from the group companies and other fabric manufacturers to meet the peak season demands of the export markets. Exports to countries such as USA, France, Canada, UK, etc contributed around 90% to their total revenues. The Company has a manufacturing unit in Salem Road, Namakkal. The installed capacity is 2313975 Pieces bedspread and the plant is operating at 100% capacity. The Company has quality certifications from TUV for ISO 9001:2000 and SA 8000: 2008 Bureau Veritas.

The company belongs to the Namakkal based KKP group, set up by Mr. K Periyasamy. The Group consists of six operating companies, all engaged in textiles viz. K.K.P. Fine Linen Pvt Ltd [engaged in vertically integrated textile production and exports; rated BWR BBB (Stable)/ BWR A3+], K.K.P. Hi Tech Weaving India Pvt Ltd [Engaged in the business of spinning, weaving and finishing of textiles; rated BWR BBB- (Stable)], K.K.P. Textiles Pvt Ltd [engaged in spinning, weaving and finishing of textiles; rated BWR BBB (Stable)/ BWR A3+], K.K.P. Weaving and Processing Mills Pvt Ltd [Engaged in manufacturing of cotton yarn and yarn fabric; rated BWR BBB- (Stable)/ BWR A3] and K.K.P. Garments Pvt Ltd [engaged in manufacturing of pillow ticks, napkins and tablecloth; rated BWR BB (Stable)]. KKP Group has Ring spinning capacity of 1,00,000 Spindles and 1800 Rotors for Open-end spinning. The Group produces more than 50



Tons of optimal quality yarn per day, with counts ranging from Ne6's, 10's, 16's, 20's, 30's, 40's, 60's. All the Group Companies are ISO 9001 certified.

Mr. N. Sathesh Kumar is the Managing Director. Mr. N. Subhash Kumar and Mrs. N. Bakkialakshmi are the other directors.

Key Financial Indicators

Parameters		31 Mar 2017 Audited	31 Mar 2018 Audited
Net sales	Rs. Crs	178.05	214.61
EBITDA	Rs. Crs	3.91	2.20
PAT	Rs. Crs	3.25	2.95
Tangible Net Worth (TNW)	Rs. Crs	13.94	16.90
Total Debt/TNW	Times	3.81	3.80
Current Ratio	Times	1.42	1.38

On a provisional basis, the company has achieved revenue of ~Rs. 251 cr during FY19. During 6MFY20, the company has reported revenue of ~Rs. 129 cr.

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA -NIL

Rating History for the last three years:

Facility	Current Rating (Oct 2019)			Rating History	
	Amount (Rs Crs)	Tenure	Rating	27 Jun 2018	24 Mar 2017
Fund based		Long Term	BWR BBB/ Stable	BWR BBB/ Stable	BWR BBB-/ Stable
Cash Credit/ Line of Credit/ Packing Credit	57.00				
Term Loan	0.67				
Bill Discounting	34.00	Short Term	BWR A3+	BWR A3+	BWR A3
Non Fund based					
Letter of credit	4.00				
Total	95.67	Rupees Ninety Five Crores and Sixty Seven Lakhs Only			

Complexity Levels of the Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

General Criteria	Manufacturing Companies
Approach to Financial Ratios	Short Term Debt

Analytical Contacts	Investor and Media Relations
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1860-425-2742	

Annexure I: Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities*	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	IDBI Bank	Cash Credit	20.00	-	20.00
2		(EPC/PCFC)	-	(20.00)	(20.00)
3		(FBP/FBN/FBD)	-	(20.00)	(20.00)
4		(LC)	-	(10.00)	(10.00)
5		(BG)	-	(5.00)	(5.00)
6		(Forward Contract-LER)	-	(8.00)	(8.00)
7		Line of Credit (VBD)	5.00	-	5.00
8	Axis Bank	PC/PCFC	32.00	-	32.00
9		(CC)	(1.00)	-	(1.00)
10		FBD (Non LC)	24.00	-	24.00
11		FBD (LC backed)	10.00	-	10.00
12		TL	0.67	-	0.67
13		ILC/FLC	-	4.00	4.00
Total			91.67	4.00	95.67

**In addition, the Company has been sanctioned a forex cover of Rs. 6.00 cr which is not rated by BWR*



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