



RATING RATIONALE

21 Oct 2019

KKP Spinning Mills Pvt Ltd

Brickwork Ratings reaffirms the ratings for the bank loan facilities of Rs. 146.16 Crs of KKP Spinning Mills Pvt Ltd ('KKPSMPL' or the 'Company')

Particulars:

Facility	Amount (Rs Crs)		Tenure	Ratings*	
	Previous	Present^		Previous (Jun 2018)	Present
Fund based:			Long term	BWR BBB/Stable	BWR BBB/Stable
Cash Credit/ Line of Credit/ Bill Discounting	106.79	92.00			
Term Loans	25.84	21.57			
Non Fund based:			Short term	BWR A3+	BWR A3+
Letter of credit	16.00	31.00			
Bank Guarantee	1.59	1.59			
Forward Cover	5.00	--			
Total	155.22	146.16	Rupees One Hundred and Forty Six Crores and Sixteen 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 been sanctioned forex cover of Rs. 7.40 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 cotton yarn 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 Spinning Mills 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. KKPSMPL was incorporated in 1993 and is engaged in the manufacturing of Cotton Yarns and Grey Fabric.
- **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 domestic sales. Company exports mainly to Myanmar, Hong Kong and Singapore. VMS Fabrics Pvt Ltd, Anithaa Weaving Mill Pvt Ltd, KK International, Maple International, etc are some of the top customers, who are dealing with KKPSMPL for more than 10 years. The Company sources most of their raw material requirements domestically from Ahmedabad, Virudhunagar etc. The Company also imports cotton from countries like Austria, Switzerland, Srilanka, UAE, Vietnam etc. The Company has order book of ~ Rs 66 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.392.59 Crs in FY18 as against Rs. 289.16 Crs in FY17. PAT during FY18 was Rs. 4.36 cr as against Rs.2.11 cr during FY17. Tangible net worth was Rs. 50.04 crore as on 31st March 2018. Total debt/Tangible net worth was 2.64 times and Total outside liabilities/Tangible net worth was 3.03 times as on 31st March 2018. However, considering the unsecured loans from promoters as quasi equity,



the Adjusted Total debt/ Tangible net worth was 1.18 times as on 31st March 2018. Debt servicing capabilities remained adequate reflected by DSCR and ISCR of 1.61 and 1.72 times respectively for FY18.

Credit Challenges:

- **Susceptibility of profitability to volatile cotton and cotton yarn prices, demand trends in key export markets and currency movements** – Similar to other spinning companies, KKPSMPL's profitability remains exposed to volatility in cotton prices, since cotton is stocked during the harvest season from October to March. The commoditised nature of its products and 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, KKPSMPL derives ~10% of its revenues from exports and imports a portion of raw materials, thereby exposing its turnover and profitability 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.
- **Intense competition in the textile industry-** KKPSMPL operates in a highly competitive and commoditised spinning industry, characterised by minimal product differentiation and fragmented nature, which restricts pricing flexibility.
- **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 achieve healthy utilisation of its capacities, scale up the operations and profitability, improve its gearing level, manage risks from volatile cotton/yarn prices 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: KKPSMPL's utilization of working capital remains high at around 90-95% over the last 12 months. Cash and Cash Equivalents were ~Rs. 3 cr, Current ratio was 1.22 times and Net cash accruals/Total Debt was 0.12 times as on 31 Mar 2019 (P). Projected cash accruals of ~Rs. 15 cr and ~Rs. 16 cr for FY20 & FY21 respectively are sufficient to meet debt repayment obligations of ~Rs. 4 cr and ~Rs. 3 cr 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. Spinning Mills Pvt Ltd (KKPSMPL), incorporated in Dec 1993 at Namakkal (Tamil Nadu), is engaged in the business of manufacturing Cotton Yarns and Grey Fabric. KKPSMPL has two spinning units situated at Perumalpatti Village, Thuraiyur Road, Namakkal. Presently the Company has 13,680 Spindles in Unit I and 23,328 Spindles in Unit II. The plant is operating at 100% capacity. The manufacturing plant has a total installed capacity of 141 Looms. Till 2015-16, the Company had been manufacturing cotton yarn only at these units. During 2016-17, they also started manufacturing Viscose yarn, Modal yarn, Micro Modal yarn, Tencel Yarn and Blended Yarn. In addition, the Company has own in-house product development & design team which works on the latest trends and seasons.

The company belongs to the Namakkal based KKP group and Mr. P Nallathambi is the present Managing Director of KKPSMPL. 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. P. Nallathambi is the Managing Director. Mr. N. Sathesh Kumar, 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	289.16	392.59
EBITDA	Rs. Crs	8.80	20.70
PAT	Rs. Crs	2.11	4.36
Tangible Net Worth (TNW)	Rs. Crs	45.68	50.04
Total Debt/TNW	Times	2.31	2.64
Current Ratio	Times	1.33	1.23

On a provisional basis, the company has achieved revenue of ~Rs. 521 cr during FY19. During 6MFY20, the company has reported revenue of ~Rs. 253 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 - India Ratings, vide its press release dated 05 Jun 2018, has maintained the ratings of the bank loan facilities of KKP Spinning Mills Pvt Ltd in Issuer Not Cooperating* category on account of continuous non-cooperation from the company, despite continuous requests and follow-ups by the rating agency.

Rating History for the last three years:

Facility	Current Rating (Oct 2019)			Rating History	
	Amount (Rs Crs)	Tenure	Rating	27 Jun 2018	16 Mar 2017
Fund based					
Cash Credit/ Line of Credit/ Bill Discounting	92.00	Long Term	BWR BBB/ Stable	BWR BBB/ Stable	BWR BBB/ Stable
Term Loan	21.57				
Non Fund based					
Letter of credit	31.00	Short Term	BWR A3+	BWR A3+	BWR A3+
Bank Guarantee	1.59				
Total	146.16	Rupees One Hundred and Forty Six Crores and Sixteen 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
<p>Naveen S Ratings Analyst Board: +91 80 4040 9940 Ext: 346 naveen.s@brickworkratings.com</p> <p>Rajee R Senior Director - Ratings B: +91 80 4040 9940 rajee.r@brickworkraings.com</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com</p>
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	Kotak Mahindra Bank	Line of Credit	36.00	-	36.00
2		(CC)	(10.50)	-	(10.50)
3		(WCDL)	(28.00)	-	(28.00)
4		(EPC/FBDN/BD)	-	(48.00)	(48.00)
5		TL	17.36	-	17.36
6		LC	-	6.20	6.20
7		BG	-	1.59	1.59
8	State Bank of India	CC	18.50	-	18.50
9		(EPC/FBDN)	-	(7.00)	(7.00)
10		SLC	2.50	-	2.50
11		TL 1&2	4.21	-	4.21
12		LC	-	5.80	5.80
13	RBL	CC	10.00	-	10.00
14		(WCDL)	(10.00)	-	(10.00)
15		(Pre Shipment)	-	(10.00)	(10.00)
16		(Post Shipment)	-	(10.00)	(10.00)
17		LC	-	19.00	19.00
18	IDBI	CC	10.00	-	10.00
19		BD	15.00	-	15.00
			113.57	32.59	146.16

* In addition, the Company has been sanctioned a forex cover of Rs. 7.40 cr which is not rated by BWR



For print and digital media : The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

About Brickwork Ratings : Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER : Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons