

## Rating Rationale

K.K.P. Textiles Pvt Ltd

12 Oct 2018

Brickwork Ratings reaffirms 'BBB/ A3+' for the bank loan facilities of Rs 103.68 Crs of K.K.P. Textiles Pvt Ltd (KKPTPL or the 'Company')

### Particulars:

Facilities#	Amount (Rs Crs)	Amount (Rs Crs)	Tenure	Rating <sup>1</sup>	
	Previous	Present		Previous (07-Jul-2017)	Present
<b>Fund Based:</b>					
Cash credit	59.50	59.50	Long term	BWR BBB [Pronounced BWR Triple B] (Outlook: Stable)	<b>BWR BBB</b> [Pronounced BWR Triple B] (Outlook: Stable) <b>Reaffirmed</b>
UBD/FDBP/FUBD	20.00	15.00			
O/S Term Loans	10.06	5.18			
Standby Line of credit	2.50	-			
<b>Non Fund based:</b>					
Bank Guarantee	0.50	0.50	Short term	BWR A3+ [Pronounced BWR A Three Plus]	<b>BWR A3+</b> [Pronounced BWR A Three Plus] <b>Reaffirmed</b>
Letter of Credit	13.50	13.50			
Line of credit to vendors	10.00	10.00			
<b>Total</b>	<b>116.06</b>	<b>103.68</b>	<b>Rupees One Hundred and Three Crores and Sixty Eight Lakhs Only</b>		

#Annexure I shows details of bank loan facilities

<sup>1</sup>For definitions of the rating symbol please visit our website [www.brickworkratings.com](http://www.brickworkratings.com)

### Ratings Reaffirmed

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials upto FY17, Management certified FY18 Provisionals, publicly available information and information/ clarifications provided by the Company's management.

The reaffirmation of ratings takes into consideration the improved financial performance of the Company during FY17 & FY18, consistent growth in revenues and healthy order book. The ratings continue to factor the operational track record & synergies in business operations of the Namakkal based K.K.P. Group, experienced management, reputed customers and supplier's base, and satisfactory financial risk

profile of the Company marked by moderate net worth and adequate liquidity position & debt protection metrics. The ratings, however, continue to be constrained by the susceptibility to volatility in raw material prices in an intensely competitive textile industry, risk of foreign exchange fluctuations and high working capital requirements of the business.

Going forward, the ability of the Company to improve the scale of operations and profitability, manage the volatility in cotton prices and working capital cycle efficiently and overall improvement in credit profile of the Company would be the key rating sensitivities.

### **Rating Outlook: Stable**

BWR believes **K.K.P. Textiles Pvt Ltd's** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

### **Key rating drivers**

**Established track record of operations-** **K.K.P. Textiles Pvt Ltd (KKPTPL)** is a part of Namakkal-based K.K.P. group, which is engaged in the manufacturing of cotton yarn, grey fabric, weaving fabric etc. The Group is well reputed and has been in existence for around 25 years now. The group is vertically integrated, with facilities across spinning, knitting, printing, stitching, and embroidery, and enjoys operating efficiency owing to its integrated operations. Also, it has end-to-end facilities, from conversion of cotton to ready-made knitwear.

**Experienced management-** The Board of Directors are well qualified and experienced. All the Directors have an experience of more than 25 years in the textiles industry.

**Satisfactory financial and credit profile of the Company marked by modest net worth, adequate debt protection metrics & liquidity position-** ISCR and DSCR were satisfactory at 1.26 times and 1.18 times respectively for FY18. Current ratio was also satisfactory at 1.24 times in FY18. Net worth stood at Rs 41.92 Crs as on March 31 2018 (Provisional).

**Healthy order book and relationships with reputed clientele-** The Company always has running Contracts with reputed customers in domestic & export markets. The group has a well-established supplier base and clientele for cotton and yarn across India. The Company exports yarn and fabric to Europe, Far East and other Asian Countries. The Company has adopted the hedging practices for covering the forex exposure. The Company has a domestic fabric order book of ~ Rs 18.00 Crs and a domestic Yarn order book of ~ Rs 15.00 Crs, for execution in Oct- Nov 2018.

**Susceptibility to volatility in raw material prices and intense competition in the textile industry-** Any volatility in availability and prices of cotton in a competitive market will significantly affect the



Company's operating margin. Thus, the Company will remain susceptible to volatility in raw material prices and intense industry competition over the medium term.

**High working capital requirements-** The liquidity of the Company is partly constrained by the large working capital requirement, as reflected in high inventory holding requirement and high receivables days. The working capital cycle was stretched at 151 days in FY18 mainly due to high receivable days and very high inventory days. The receivables stood at Rs 72.93 Crs as on March 31 2018 (Provisional). The receivables were stretched during FY18 mainly due to GST transitioning issues. Inventories stood at Rs 86.64 Crs as on March 31 2018 (Provisional). Higher inventories are due to the seasonal nature of the textile business, where the raw material procurement is done in the peak season and is stocked as inventories.

### **Analytical approach**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

### **About the Company**

Incorporated in March 1984 at Namakkal, Tamil Nadu, **K.K.P. Textiles Private Limited** is engaged in spinning, weaving and finishing of textiles. The Company's plant is located at Namakkal and is operating at 100% capacity. The manufacturing plant has a total installed capacity of 57792 Spindles and 2440 Rotors. The Company is also focused on diversification by manufacturing Viscose yarn, Modal yarn, Micro Modal yarn, Tencel Yarn and blended yarn which is a mixture of cotton & Modal. The Exports of yarn and fabric to Europe, Far East and other Asian Countries contributed 18% to total revenues in FY18 and remaining were the domestic sales.

Based in Namakkal (Tamil Nadu), the K.K.P. group was set up by Mr. K Periyasamy, father of Mr. P Nallathambi, who is the present Chairman. The Group presently has six operating companies, all engaged in the activity of spinning and textiles. All these companies have common management, complement one other thereby improving efficiency of operations and also have a centralised system for procurement of raw materials and marketing arrangements, which has resulted in corporate synergy of business operations. Mr P. Chinnasamy is the Managing Director. Mr. P. Nallathambi, Mr. N. Sathesh Kumar, Mr. N. Subhash Kumar, Mr. C. Selvi and Mr. N. Bakkialakshmi are the other directors. All the Directors are well qualified and have extensive experience in textile industry.

### **Financial Performance**

Total operating income improved to Rs 234.29 Crs in FY17 from Rs 206.71 Crs in FY16 driven by higher sales realization. PAT also improved to Rs 1.04 Crs in FY17 from Rs 0.75 Crs in FY16 mainly due to higher sales. Tangible net worth stood at Rs 40.56 Crs as on March 31 2017. Total debt stood at Rs 118.40 Crs as on March 31 2017. Total debt/ Tangible net worth stood at 2.92 times as on March 31 2017. ISCR and DSCR were satisfactory at 1.48 times and 1.14 times respectively for FY17. Current ratio (1.23 times) and ROCE (8.48%) were also satisfactory in FY17.

On a provisional basis, the Company has posted total operating income and PAT of Rs 245.93 Crs and Rs 1.36 Crs respectively for FY18. Total debt stood at Rs 117.03 Crs as on March 31 2018 (Provisional). Long term borrowings of Rs 32.96 Crs in FY18 comprised of Term loans from Lakshmi Vilas Bank (Rs 1.90 Crs), Term loans from SBI (Rs 1.47 Crs) & Car loans (Rs 0.22 Crs) and interest free unsecured loans from directors of Rs 29.48 Crs. Considering 50% of unsecured loans from promoters as quasi equity, adjusted net worth stood at Rs 71.28 Crs as on March 31, 2018. Adjusted Total debt/ Tangible net worth was comfortable at 1.23 times as on March 31, 2018, considering the unsecured loans from promoters as quasi equity. The key financial indicators are summarized in Annexure II.

**Status of non-cooperation with other CRA: Not applicable.**

**Any other information:** CRISIL Ratings vide their rating rationale dated 27<sup>th</sup> Mar 2018 has migrated the rating on bank loan facilities of KKP Textiles Pvt Ltd to 'CRISIL BBB-/Stable/CRISIL A3 Issuer Not Cooperating and has withdrawn its ratings on the bank facilities of KKP Textiles Pvt Ltd on the request of the company and receipt of a no objection/ due certificate from its bank.

**Rating History for the last three years:**

Sl. No.	Facility	Current Rating (2018)			Rating History		
		Tenure	Amount (Rs Crs)	Rating	07-Jul-2017 ^	2016	2015
1.	Fund based Limits	Long term	79.68	BWR BBB [Pronounced BWR Triple B] Reaffirmed	BWR BBB (Stable) Assigned	-	-
2.	Non Fund based Limits	Short term	24.00	BWR A3+ [Pronounced BWR A Three Plus] Reaffirmed	BWR A3+ Assigned	-	-
	<b>Total</b>		<b>103.68</b>	<b>Rupees One Hundred and Three Crores and Sixty Eight Lakhs Only</b>			

^Amount rated: Rs 116.06 Crs

**Hyperlink/Reference to applicable Rating Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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**K.K.P. Textiles Pvt Ltd**

**Annexure I: Details of the bank facilities rated**

Facility	Sanctioned Limits (Rs Crs)				
	Lakshmi Vilas Bank	State Bank of India, Lead Bank of the Consortium	Federal Bank	IDBI Bank	Total
<b>Fund based:</b>					
Cash Credit	17.50	24.50	12.50	5.00	59.50
UBD/FDBP/FUBD	15.00	-	-	-	15.00
Term Loans (O/S as on 30-09-2018)	3.16	2.02	-	-	5.18
<b>Non Fund based:</b>					
Bank Guarantee	-	0.50	-	-	0.50
Letter of Credit	5.00	5.00	3.50	-	13.50
Line of Credit to Vendors	-	-	-	10.00	10.00
<b>Total</b>	<b>40.66</b>	<b>32.02</b>	<b>16.00</b>	<b>15.00</b>	<b>103.68</b>

**K.K.P. Textiles Pvt Ltd**  
**Annexure II**  
**Key Financial Parameters**

<b>Particulars</b>	<b>31/Mar/2016</b>	<b>31/Mar/2017</b>
<b>Result Type</b>	<b>Audited</b>	<b>Audited</b>
Total Operating Income (Rs Crs)	206.71	234.29
EBITDA (Rs Crs)	20.95	19.68
PAT (Rs Crs)	0.75	1.04
Tangible Net Worth (Rs Crs)	39.54	40.56
Total Debt/TNW (Times)	2.75	2.92
Current ratio (Times)	1.20	1.23

**For print and digital media**

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**Note on complexity levels of the rated instrument:**

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**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. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 13,22,500 Cr. In addition, BWR has rated over 7000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹62,000 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities



## **DISCLAIMER**

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